هكذا من الأصل

The Global Newspaper
Edited and Published in Paris
Printed simultaneously in Paris, London, Zurich, Hong Kong, Singapore, The Hague, Marseille, Miami.

INTERNATIONAL Herald Tribune

Published With The New York Times and The Washington Post

No. 32,224 40/86 ** PARIS, MONDAY, SEPTEMBER 29, 1986 ESTABLISHED 1887

The Associated Press

A Beijing worker dusted a portrait of Stalin to prepare for China's national day on Oct. 1, as party leaders, meeting Sunday, adopted a line urging Marxism with flexibility.

Deng Shifts Ideology Back to Center Stage

By Daniel Southerland
Washington Post Service

BEIJING — China's leaders seized the initiative on the ideological front Sunday, using their critics' slogans to their own advantage in a new campaign to restore momentum to their economic changes.

A Communist Party Central Committee meeting passed a major resolution dealing with socialist culture and ethics, or "socialist spiritual civilization."

Sources said that the eight-point, 9,600-character document provided an ideological justification for continuing the rural and urban economic transformation initiated over the past seven years by Deng Xiaoping, China's paramount leader.

The document strongly reflects Mr. Deng's pragmatic approach to modernization but also addresses some of his critics' concerns over the need to counter what they regard as negative Western influences entering China as a result of its policy of opening up to the outside world.

Until recently, it was Mr. Deng's critics who used "spiritual civilization" as their rallying cry. But in a maneuver typical of Mr. Deng, he and his allies seem to be appropriating the critics' main issue — ideals and ideology — for their own use.

It is in the area of ethics and ideology that Mr. Deng and his colleagues have often appeared to be most vulnerable. The current preoccupation with economic gains has led many people to ignore ideology. Some even say that the Chinese have been facing an ideological vacuum.

The new document advocates both Marxism and flexibility. It says that it would be wrong to regard Marxism as a "rigid dogma" but also wrong to negate basic tenets and to blindly worship Western philosophies and social doctrines.

China began a drive to counter resistance to family planning in rural areas. Page 2.

The section of the document that is devoted to Marxism seems to be addressed in particular to young Chinese who have lost faith in the Communist political system. It says in effect that the Communist Party is willing to be flexible but cannot simply drop Marxism as some young Chinese would like.

The document rejects the idea of "putting money above all else" in life, an idea that some young Chinese have embraced. But it defends Deng Xiaoping's idea of letting some people "become prosperous first, before the objective of common prosperity is achieved."

It says that China should reject all that is "ugly and decadent" in capitalism, including what the authors of the resolution call "oppression and exploitation." But it also

See CHINA, Page 2

Reagan Vetoes Sanctions

House, Senate Are Expected to Override Action

By David Hoffman
Washington Post Service

WASHINGTON — President Ronald Reagan, saying that the United States cannot "turn its back and walk away" from South Africa, has vetoed legislation that would impose new economic sanctions against Pretoria. The action set the stage for a major foreign policy confrontation with Congress.

RELATED ARTICLES

- Two blacks were burned to death and a nightclub was attacked in South Africa. Page 2.
- Democrats took advantage of Mr. Reagan's attempt to avoid publicity over his veto. Page 3.

Mr. Reagan, in his veto message, said, "The sweeping and punitive sanctions adopted by the Congress are targeted directly at the labor-intensive industries upon which the victimized peoples of South Africa depend for their very survival. Black workers — the first victims of apartheid — would become the first victims of American sanctions."

Congress approved the sanctions by overwhelming bipartisan margins in an effort to pressure South Africa to end apartheid. White House and congressional sources said Mr. Reagan lacked the votes needed to sustain the veto either in the House or the Senate, where a showdown is expected this week. A two-thirds vote in both chambers is needed to override a veto.

White House officials withheld release of Mr. Reagan's veto message until after the network television news broadcasts Friday night, a tactic often used to minimize news media attention to politically unpopular announcements.

Mr. Reagan faces opposition from key leaders of his party, including Senator Richard G. Lugar, Republican of Indiana and chairman of the Foreign Relations Committee.

White House officials said the president was expected to announce additional measures affecting South Africa this week. The measures, which are designed to head off a veto override, may include a milder set of sanctions, a $500-million regional aid package and a visit to southern Africa by Secretary of State George P. Shultz.

Officials have said that the president also intends to name the first black U.S. ambassador to South Africa but that the nomination is being postponed until after the veto-override vote. The prospective nominee is Edward J. Perkins, U.S. ambassador to Liberia.

Mr. Reagan devoted his veto

See VETO, Page 6

The Associated Press

Christian fighters loyal to Elie Hobeika, removed as Lebanese Forces militia leader in January, making the first attack across the Green Line into East Beirut in the civil war.

Christian Rebels Enter East Beirut In Attack but Are Repelled by Army

United Press International

BEIRUT — The Lebanese Army thwarted an attempt Sunday by pro-Syrian militias to storm the defenses of Lebanon's Christian heartland, sources said.

It was the second attack in two days on the Christian-controlled area. On Saturday, fighters led by Christian opponents of the mainstream Maronite Catholic militia crossed the Green Line into East Beirut for the first time in 11 years of civil war.

The sources said army units, dug in along the Upper Metn mountains northeast of Beirut, opened fire Sunday with tanks and heavy artillery on pro-Syrian militiamen who tried to break through the front line again.

The troops, loyal to President Amin Gemayel, pounded the advancing attackers for half an hour and forced them to pull back and stop their attempt, the sources said.

The army command made no official statement on Sunday's attack on the Christian enclave, which stretches from the hills southeast of Beirut more than 25 miles (40 kilometers) to the north.

The main militia in Christian East Beirut, the Lebanese Forces, said that it had captured several pro-Syrian fighters who had hidden in East Beirut until late Sunday after failing to withdraw to the Western side.

A militia statement said several Moslem fundamentalists were among those captured. It said that they had taken part in the attempt Saturday to invade the Christian sector of the capital.

The 10-hour operation on Saturday by about 300 followers of the Lebanese Forces' former leader, Elie Hobeika, killed 39 people and wounded more than 200, the police said.

The Lebanese Forces' current leader, Samir Geagea, accused Syria of planning the attack. The chief of intelligence of the Syrian forces in Lebanon, Brigadier Ghazi Kanaan, denied the charges.

In southern Lebanon, meanwhile, two French soldiers of the United Nations Interim Force in Lebanon were wounded on Sunday when a bomb exploded near their position east of the port of Tyre, a UN spokesman said. Neither man was seriously injured, he said.

The attack came after French

See BEIRUT, Page 6

Tax Reform Passes Senate, Goes to Reagan

By Anne Swardson
Washington Post Service

WASHINGTON — The U.S. Senate, capping an extraordinary drive, has given final congressional approval to a bill that would sharply cut tax rates and limit or repeal many widely used tax deductions.

The bill, one of the broadest revisions of the tax system since Congress created it in 1913, was approved Saturday, 74-23

The legislative struggle was a difficult one, facing strong opposition from special-interest groups concerned about losing tax breaks.

A drive to curb illegal immigrants has failed in the U.S. House. Page 3.

President Ronald Reagan, who had made tax reform his top domestic priority, called the bill "fairer, simpler for most people, one that encourages growth and that is pro-family."

He said he would sign the bill as soon as it reached his desk. The Senate still must approve an accompanying package of technical corrections to the bill, an action expected within a few days.

The bill, approved Thursday by the House of Representatives, 292-136, would cut the top tax rate for individuals to 38.5 percent for income earned in 1987.

In subsequent years, there would be statutory rates of 15 percent and 28 percent, plus a third effective rate of 33 percent for some affluent households.

Corporations would pay an estimated $120 billion more in taxes by 1991, and the revenue gained would be used to reduce individuals' taxes by 1.6 percent in 1987 and by 6.1 percent in 1988.

Six million people in the lowest income category would be removed

WP

Bob Packwood

from the tax rolls by a higher standard deduction and personal exemption. The rate cuts also would help some people now in the highest tax brackets.

The tax bill was generally welcomed by members of both parties.

"Taxes are about more than money," said the Senate Finance Committee chairman, Bob Packwood, Republican of Oregon. "They are about more than economics. They are about fairness, and this bill is fair."

Senator Bill Bradley, Democrat of New Jersey, an early advocate of tax revision, said, "I'd say this is the most significant tax bill since 1954, and maybe since 1913," when the income tax was created.

But even as they debated the bill, legislators in both chambers were

See TAX, Page 6

Tax Law Will Alter Decades-Old Ways

By Gary Klott
New York Times Service

WASHINGTON — Life in America is likely to change in hundreds of ways under the new U.S. tax law, altering the way people spend, save, borrow and invest their money.

While the basic fabric of American life will not be radically altered, analysts say, many adjustments are certain. Even though most people will end up with more cash in their pockets, they will lose many of the tax benefits that have helped subsidize and encourage a long list of common expenditures for decades.

Some people may buy less expensive homes or forgo a vacation home because tax benefits will not provide as much of a subsidy for home ownership under a system of lower tax rates. Similarly, with rents expected to rise because of the curtailment of tax breaks for landlords, apartment dwellers may have to set their sights a bit lower.

Many people may finance their next automobile by borrowing against their home instead of taking out a conventional car loan, the interest on which will no longer be deductible from taxable income.

Some students might be forced to choose a less expensive college or work a while before going to graduate school if their scholarships become taxable and education loans are no longer deductible.

And executives may find that the new law puts a crimp in their expense accounts. The new law's 20-percent reduction in the amount that can be written off for business meals and entertainment, together with the lower corporate rate, will raise the real cost of an expensive lunch or a night on the town by 35 percent.

The new law will touch virtually every aspect of people's financial lives.

"It's hard to think of an area that doesn't get affected," said Clark L. Bernard, a partner at the accounting firm Coopers & Lybrand.

Perhaps the most dramatic changes, albeit temporary, will occur over the next few months as taxpayers rush to take advantage of tax savings before Jan. 1, when most provisions of the bill will take effect.

Tax professionals expect that before the preferential tax treatment of capital gains comes to an end on Jan. 1, millions of investors will unload stocks, second homes and other assets whose values have risen since they were acquired.

Meanwhile, executives are trying to get part of their salaries and bonuses deferred until 1987 or 1988, when the money would be taxed at much lower rates.

School teachers and investors who have relied on the tax code to help finance their vacation travels may end up staying closer to home. Tax deductions for educational travel and trips to investment seminars are to be abolished.

Investment choices are expected to change dramatically. Entertainers, athletes and wealthy executives will undoubtedly shun

See EFFECT, Page 6

Soviet Shows Test Site to Foreigners

By Robert Evans
Reuters

GEGELEN HILLS, U.S.S.R. — The Soviet Union has opened parts of its main nuclear test site in these barren Central Asian granite hills to the first known inspection by foreigners.

A small group of journalists from the West and Japan as well as reporters from the Eastern bloc were shown shafts tunneled into hillsides where tests had taken place. They viewed one shaft that had been prepared 14 months ago for an explosion.

Soviet officers who accompanied the party over the weekend made it clear that the visit had been arranged to reinforce Moscow's appeals to the United States to join in the Kremlin's year-old moratorium on nuclear testing.

"The aim of our journey is to show you that our test site is silent," General Yuri V. Lebedev of the Defense Ministry told the group as it flew from Moscow. "We would like it to remain that way for ever."

At the site, in the Gegelen Hills about 90 miles (145 kilometers) west of the city of Semipalatinsk, rail tracks run to the rusted iron doors of two tunnels that officials said had not yet been used for testing. After the doors into one tunnel were unlocked, the group was led about 100 yards (meters) along a track into the hillside.

General Arkadi D. Ilyenko, commander of the test zone area, said that all of the tests at the site had been carried out in shafts bored horizontally into the granite, not in shafts dug downward into the ground as many Western experts believed.

He said that work on the tunnel had been halted when the moratorium was declared in August 1985, seven months before it would have been ready for a nuclear test.

The tunnel measured about 4 yards wide by 4 yards high. A ventilation pipe with a diameter of about 20 inches (50 centimeters) ran along one side at head level,

See SITE, Page 6

Boris Yurchenko/The Associated Press

A Russian officer testing water for radioactivity Sunday near a nuclear test tunnel.

Coalition Is Acceptable, German Greens Decide

By James M. Markham
New York Times Service

NUREMBERG — Four months before national elections, the anti-establishment Greens party concluded a chaotic congress Sunday with something resembling a victory of its pragmatic wing over its visionary and Marxist-Leninist factions.

The rather murky triumph of the "Realos" — realists among the Greens who favor dirtying their hands by assuming governmental responsibilities in coalition with the Social Democratic Party — occurred at midnight Saturday as the lights were being turned out in a vaulting convention center.

After rejecting with hand-flashed green ballots a score of motions, including several that would have effectively excluded a coalition in Bonn with the Social Democrats, the delegates seemed to narrowly approve one that left the door ajar to cooperation if the two opposition parties emerged with a "mathematical majority" in the Bundestag on Jan. 25.

As dogs and children meandered through the darkening hall, a young woman announced that there were "about 180 to 190 yes" votes and "156 to 180 no votes." That equivocal outcome prompted some rear-guard parliamentary machinations by the "Fundis," or anti-coalition fundamentalists.

But a second count produced a count of 230 ayes to 190 nays. For this second vote, extra delegates drifted in from the outside stands, where hawkers were pushing the causes of the African National Congress, anti-ayatollah Iranian factions, homosexuals and the Sandinists, whose youthful West German representatives offered Nicaraguan coffee at nondiscount prices.

The balloting was a landmark on the stony road to political realism for the seven-year-old Greens, who say they want to yank West Germany out of NATO and abolish atomic energy overnight. The allure of power, and the need to explain to a skeptical electorate what the Greens are going to do with the votes they are demanding, has subtly tipped the balance from the "Fundi" to the "Realo" camp.

Fundamentalists didn't like the preoccupation with the Social Democratic Party, or SPD. "The

See GREENS, Page 6

The Associated Press

Paul A. Volcker, left, chairman of the Federal Reserve, with Nigel Lawson, British chancellor of the exchequer, at a weekend meeting in Washington. The U.S. and its allies still disagree on economic policy, a Group of Seven statement conceded. Page 15.

INSIDE

Nakasone's Gaffe: A Japanese View

By John Burgess
Washington Post Service

TOKYO — Prime Minister Yasuhiro Nakasone's observation in a speech on Sept. 22 that the level of education and intellect in the United States is low because of its large black and Hispanic populations almost passed unnoticed here.

Some of Japan's nationally circulated newspapers made no mention of the remark. Those that did generally reported it in inside-page columns that chronicle off-beat or humorous developments in the political world.

In the view of many Japanese, Mr. Nakasone was simply talking common sense, saying that ethnic diversity creates confusion and discord. From their perspective, he was saying that societies function best when people look, think and act alike, as they do in Japan.

The uproar that the prime minister's words caused the next day in the United States forced Japan to sit up and pay attention.

Facing angry speeches in Congress and calls for a boycott of Japanese products, Mr. Nakasone formally acknowledged Friday that he had offended many Americans and issued a "heartfelt apology."

'We are not accustomed to living together with other races.'

— Tadashi Yamamoto, Japan Center for International Exchange

His gesture appeared to cool things off, but it did little to close the gap in racial perceptions that permanently divides the two countries. In the United States, Mr. Nakasone's remarks were called racist; in Japan, he was faulted mainly for voicing his opinion, not for having it.

Mr. Nakasone said he was only making an objective statement about literacy and that he had intended no slur.

Many Japanese analysts fear that similar incidents are inevitable.

"We are not accustomed to living together with other races," lamented Tadashi Yamamoto, president of the Japan Center for International Exchange. "We do not have the basic training."

Many Japanese believe that big decisions are easier in a homogenous society. "The racial composition of Japan's population is highly uniform," the mass-circulation newspaper Asahi Shimbun said in an editorial Saturday, "and this has

See JAPAN, Page 6

At the UN, Falling Doves, Magic Tricks and a New Kind of Hero

By Elaine Sciolino
New York Times Service

UNITED NATIONS, New York — Just before his speech, President Ronald Reagan got stuck in an overloaded elevator for nearly a minute before a security guard employed by the United Nations could pry the door open.

On International Peace Day, Marcella Pérez de Cuéllar, the wife of Secretary-General Javier Pérez de Cuéllar, let loose a live "peace" dove that promptly fell to the ground with a thud.

And at a dinner for Asian ministers, Foreign Minister Tadashi Kuranari of Japan unleashed what his spokesman described as a "secret weapon": He performed four magic tricks.

It's that time of the year again, the time for protocol mishaps and reception overload, for security measures and marathon meetings, as another General Assembly debate opens.

In between, the presidents and *prime ministers, foreign ministers* and special envoys — even a couple of kings and princes — parade to the assembly podium to tell the world just what they think of it.

The annual three-week general debate — no debate at all but a series of speeches — is the closest thing to a State of the World address, as national leaders bring their concerns to the attention of their constituents at home and their colleagues abroad.

It serves another important, though perhaps less lofty, function as well. "I'm convinced that all the talking helps relieve tension," said Portugal's deputy chief delegate, Antonio Monteiro. "It's group therapy for the world."

For the most part, the world's concerns are vastly different from the those of the first assembly 41 years ago, which grappled with the extradition and punishment of war criminals, a worldwide shortage of grain and the economic reconstruction of countries devastated by World War II.

This year, with uncertainty over whether there will be a Soviet-American summit meeting because of the Daniloff affair, East-West relations have overshadowed speeches and meetings. And stunned by a wave of terrorist attacks in France, Pakistan, Lebanon and Turkey, many speakers have called for cooperation among nations to combat a growing problem.

Leaders have also urged the resolution of the global debt crisis, apartheid, a variety of regional conflicts and the financial woes of the host organization. The UN financial officers say they may not be able to meet the payroll by Dec. 31.

Of one foreign minister's cutting short his speech to save time: 'If everyone did this, it would save us hundreds of thousands of dollars.'

— Humayun Rasheed Choudhury

AP

Some speakers seek to inspire. President Oscar Arias Sánchez of Costa Rica, for example, said he was "putting his faith in a higher destiny that will lead us to liberty and democracy."

Others included concerns closer to home, from King Juan Carlos I's call for the rapid return of Gibraltar to Spain to the demand by Foreign Minister Wu Xueqian of China that Vietnam withdraw from Cambodia.

At a time when the United Nations is struggling to streamline, Angola's foreign minister, Afonso Van Dunem, has emerged as a kind of in-house hero at this session.

The Angolan official was only 10 minutes into what was billed as a 40-minute discourse when he suddenly stopped, turned to the General Assembly president, Humayun Rasheed Choudhury of Bangladesh, and announced what many delegates have called the most courageous statement of the 41st General Assembly.

He said, "Mr. President, I have decided not to speak the entire speech which I have." Anyone who wanted a copy of it would find it distributed later, he added.

Because the assembly is scheduled to end three weeks early as a cost-cutting measure, his gesture was warmly welcomed.

"It was a revolutionary gesture," said Mr. Choudhury, who has made an efficiently run assembly his top priority. "If everyone did this, it would save us hundreds of thousands of dollars."

Sometimes the verbal jousting both inside and outside the assembly hall gets so rough that one side has to back down. In a special session that preceded the debate, Congo's foreign minister, Antoine Ndinga-Oba, angered Israeli officials when he said there were only two countries in modern times comparable to South Africa: Nazi Germany and Israel.

Israel protested through the United States, and American officials paid a visit on Mr. Ndinga-Oba, telling him that Mr. Reagan just might not look favorably on a meeting with Congo's president, Denis Sassou-Nguesso, when he visits Washington next month.

In a letter to the chief American delegate, Vernon A. Walters, the Congolese apologized "in case the interpretation of that passage could have equated Israel to the Nazis, which as one knows cannot be compared to the Jews for evident historical reasons."

The most talked-about event of the week was Mr. Kuranari's magic show. At a dinner for Asian foreign ministers, he succeeded in getting Indonesia's foreign minister, Mochtar Kusumaatmadja, and Australia's foreign minister, Bill Hayden, to help him with a rope trick.

"It was a stunning experience," a veteran Asian diplomat said. "Japan is among the most formal countries in the world, and to see the foreign minister do magic tricks was just remarkable, and, well, charming."

WORLD BRIEFS

Flooding Displaces 500,000 in India

CALCUTTA, India (AP) — Officials in West Bengal state have begun a relief program to aid the estimated 500,000 people driven from their homes by torrential rains and flooding.

At least 19 persons have died since Tuesday, when heavy rainfall began sweeping the region and sent rivers over their banks, the police said Saturday. The state's chief minister, Jyoti Basu, said that communications had been severed with some areas and that the death toll could rise as more information became available. Although the rain eased Saturday in Calcutta, West Bengal's capital, showers continued in other areas of the state.

Mr. Basu said the government began sending milk powder, doctors, medicine and tents Saturday by truck to the hardest-hit areas in the five southern districts of the state. Government relief camps are sheltering many of the people who are believed to have fled their homes, he added.

Liberia Silences Independent Paper

MONROVIA, Liberia (AP) — The Liberian government has revoked the publishing license of the Sun-Times, effectively silencing the independent newspaper when it failed to meet a 24-hour deadline for payment of a fine.

The newspaper, founded 14 months ago, was fined $3,000 Thursday for publishing what President Samuel K. Doe called "articles intended to create disunity in the country."

The newspaper made a $500 payment on Friday and said it would pay the balance Monday. It said that contributions were being received from Liberians who did not want the newspaper to close. The government closed the paper on Saturday.

Chirac's Majority Unchanged in Vote

TOULOUSE, France (Reuters) — France's ruling conservative coalition and the opposition Socialist Party each won four seats in a parliamentary by-election Sunday, leaving the right's narrow National Assembly majority unaltered.

The poll in the Haute Garonne region of southwest France was the first electoral test for Prime Minister Jacques Chirac since the right won general elections in March. The ruling coalition has a three-seat majority in the assembly.

Separately, computer projections indicated the right reinforced its position Sunday in indirect elections held every three years for one-third of the legislature's upper house, the Senate.

Adrian Bradshaw/Reuters

HERE'S HOW, GENERAL — General Wojciech Jaruzelski dines with Prime Minister Zhao Ziyang after arriving Sunday in Beijing. General Jaruzelski's visit, the first by a Polish head of state to China in 27 years, reflects an improvement in Chinese-Soviet relations.

Israel Appoints 3 West Bank Mayors

JERUSALEM (AP) — Israel appointed Palestinian mayors to three cities in the occupied West Bank on Sunday to replace Israeli officers, a Defense Ministry official said.

The appointments were the first since the mayor of Nabulus, Zafer al-Masri, was assassinated outside his office on March 2, three months after Israel appointed him. Two Syrian-backed Palestinian guerrilla factions said they had killed him.

The new mayors of Hebron, Ramallah and Bire are pro-Jordanian moderates who are known not to be supporters of the Palestine Liberation Organization, the ministry official said. He said the appointees are Abdel Mejid Zir, 55, to Hebron; former Mayor Khalil Musa Khalil, 70, to Bire, and Hassan el-Tawil, 70, to Ramallah.

Senate Foes in Louisiana Face Runoff

NEW ORLEANS (UPI) — Representative John B. Breaux, a Democrat, has forced the favored Republican candidate, Representative W. Henson Moore, into a runoff contest for the U.S. Senate seat now held by Russell B. Long, who is retiring.

But Mr. Moore, who outspent Mr. Breaux 3-1 and drew President Ronald Reagan twice to Louisiana in support of his campaign, remained a strong favorite in his bid to become the first Republican senator from Louisiana in more than a century. National Republican officials had hoped that an outright victory Saturday would give the party an early edge in its battle to keep a Republican majority in the Senate.

With 3,073 of 3,245 precincts reporting, Mr. Moore had 473,918 votes for 43.5 percent of the total, compared with 403,485, or 37.3 percent, for Mr. Breaux. Under Louisiana's nonpartisan primary system, one of them needed to gain a majority of votes to avoid a runoff. The Democratic vote was severely divided, with Mr. Breaux as one of 10 candidates on the party's ticket.

For the Record

A bomb exploded at a political rally in Dhaka organized by the opposition in Bangladesh, injuring 15 persons, 5 of them seriously, hospital workers said Sunday. *(AP)*

Ecuador's Congress has voted to dismiss the finance minister, Alberto Dahik, for taking economic measures that it called unconstitutional. The Congress said Friday that the measures, adopted Aug. 11 to combat a crisis caused by the falling price of Ecuador's oil exports, were a result of pressure from the International Monetary Fund. *(Reuters)*

Policemen in Port-au-Prince, Haiti, fired into the air and shot tear gas into a crowd of about 350 anti-government protesters Saturday, injuring several of them, witnesses said. *(Reuters)*

Nicaragua Renews Talks With Church

By Marjorie Miller
Los Angeles Times Service

MANAGUA — The leaders of Nicaragua's Sandinist government and the nation's Roman Catholic Church leaders have agreed to revive a commission on church-state dialogue after its first meeting in almost a year.

President Daniel Ortega Saavedra and the primate of Nicaragua, Cardinal Miguel Obando y Bravo, described the meeting on Saturday as constructive and peaceful.

But they apparently did not resolve any of the principal issues between the church and the Marxist-led government.

The commission met eight times after it was set up in December 1984 as a forum for reconciliation among Nicaraguans.

The government wants the church to stop making statements that the Sandinists view as support of President Ronald Reagan's policies in Central America and to the guerrillas, known as "contras," fighting the Sandinists in the countryside with U.S. support.

Reuters

Cardinal Miguel Obando y Bravo, primate of Nicaragua, after his meeting with President Daniel Ortega Saavedra.

The church wants the government to let two exiled Catholic leaders return to Nicaragua and to allow the reopening of Radio Católica, the official church radio station that was closed by the government on Jan. 2.

Mr. Ortega and the cardinal met for almost three hours at the papal envoy's residence outside Managua.

Mr. Ortega said that the dialogue commission would meet again on Tuesday.

Except for a recent meeting to the Saturday encounter, the body had not met since October, when the Sandinists decreed a wartime state of emergency that limited civil liberties.

After the meeting, the cardinal said that the two sides agreed that they need to devise a "practical plan" for handling church-state issues before getting down to specific problems such as the cases of the two exiled church leaders, Bishop Pablo Antônio Vega Mantilla and the Reverend Bismarck Carballo.

Helms-Pinochet Talks Allegedly Were Bugged

By Joanne Omang
Washington Post Service

WASHINGTON — The Central Intelligence Agency has obtained electronic surveillance information on conversations between Senator Jesse Helms and President Augusto Pinochet of Chile, according to the North Carolina legislator's staff and intelligence sources.

The Justice Department is investigating charges that the Republican senator or a member of his staff leaked classified information to the Chilean government that enabled the Chileans to shut down a productive information-gathering channel.

Mr. Helms has called the charges "a concoction" by State Department officials in retaliation for his criticisms of their conduct of foreign policy.

A Helms staff member said letters had been sent to Attorney General Edwin Meese 3d and Justice Department officials asking whether Mr. Helms or his staff members had been the target of "electronic surveillance" during his visit to Chile on July 9-13 or at their homes or offices in Washington.

While surveillance of General Pinochet and any of his conversations would be legal under U.S. law, surveillance in Washington would be illegal without an advance judicial finding that national security was at stake or that a criminal investigation was warranted.

WP

Jesse Helms

Mr. Helms also sent letters to the director of central intelligence, William J. Casey, and Secretary of State George P. Shultz asking for copies of all intelligence reports they received on Mr. Helms's trip to Chile, the staff member said.

"Certain things we have been told lead us to believe that a number of our meetings were bugged" in Chile, including the meeting with General Pinochet, the staff member said.

Another staff member said Mr. Helms was certain there had been "eavesdropping," but that it might have been conducted by the Chilean intelligence services and then passed to the CIA.

Mr. Helms and other conservatives have long criticized the CIA and the State Department for what they regard as overly complacent evaluations of Soviet military strength and for minimizing the danger of Communist takeovers in many nations, including Chile.

General Pinochet has blamed leftists for the attempt on his life Sept. 7 in which five of his bodyguards were killed.

Mr. Helms said in a recent interview that the State Department and the CIA had begun a "smear campaign" against him because he was opposed to "their agenda of kicking our friends in the teeth around the world and cozying up to the emissaries of the Soviet Union."

■ Dutch Appeal to Santiago

The Netherlands foreign minister, Hans van den Broek, appealed Saturday for the release of a Chilean student who was dragged from a Dutch diplomatic car by armed police in Santiago on Sept. 8, Reuters reported from Amsterdam.

Four students were seized after staging a protest at the Dutch Embassy against the Chilean government. Three were freed Friday.

2 Blacks Die In Fires in South Africa

Agence France-Presse

JOHANNESBURG — Two black men were burned to death and four persons were wounded in weekend violence in South Africa that included a grenade attack on a nightclub, officials said.

The government's Bureau for Information reported that a black man had been burned to death in Kwanobuhle, near Port Elizabeth, while a second man had died from burns when his home was set afire in Kagiso township near Johannesburg.

Early Sunday, a white couple and a mixed-race woman were wounded when a grenade was thrown into a nightclub in the mixed-race township of Eden Park, about 20 miles (30 kilometers) southeast of here, the information bureau said.

The grenade attack was seen as further evidence of an escalation of violence in South Africa that has spread from the black townships into urban areas since a state of emergency was imposed June 12.

Bomb attacks in urban areas in the past three months have left 9 persons dead and more than 150 injured.

Three persons were injured when a bomb exploded in a Johannesburg hotel on Friday.

Last week also saw the first attack on a white housing suburb since the latest wave of violence began over two years ago. Officials said a mine exploded at the home of a white woman official working for the government-installed black council in Soweto township.

■ Divestitures in U.S.

In the first year of one of the nation's most far-reaching divestment programs, the state of New Jersey has withdrawn $1.5 billion in pension fund investments from companies doing business in South Africa. It has also raised its total planned divestiture to $4.3 billion from $2.7 billion, The New York Times reported from Trenton, New Jersey.

Of the 20 states that have voted to divest themselves of investments to pressure the white minority government of South Africa to share power with the black majority, only California's planned divestiture of more than $11 billion is larger.

[Governor George Deukmejian signed California's landmark divestiture law on Friday and called on Congress to override President Ronald Reagan's veto of legislation imposing sanctions on South Africa, the Los Angeles Times reported from San Francisco.]

The 20 states, as well as 68 cities and 119 universities, are expected to divest themselves of some $30 billion in securities to protest the South African government's policy of racial separation.

CHINA: Changes Endorsed

(Continued from page 1)

says that it will be impossible for China to modernize without opening up the country to science, technology and management techniques from the West.

"They are using the slogans of the opposition to create a new basis for economic reforms," said a Chinese who was briefed in advance on the Central Committee meeting.

Communist Party critics, while unwilling to confront Mr. Deng head-on, have made it clear that they fear that the Chinese leader has gone too far in opening China to outside influences.

In the autumn of 1983, Deng Liqun, a leading ideologue and then the party's propaganda chief, launched a short-lived campaign against "spiritual pollution" coming from what he described as "decadent" Western ideas in the press, propaganda and culture.

Deng Liqun, who is not related to Deng Xiaoping, and his allies quickly broadened the campaign until it began to shake confidence in the continuation of the new economic policies. At that point, the Communist Party general secretary, Hu Yaobang, and others ended the campaign.

As a result of Sunday's Central Committee meeting, the Communist Party plans an educational campaign to promote ethics. Chinese sources said it would:

- Help provide a moral complement to the "money first" mentality of some workers whose long-suppressed desire for a greater variety of material goods is now being partially satisfied by Mr. Deng's economic policies.
- Help promote the economic policies by giving people a reason to succeed beyond their own selfish personal aims.
- Help overcome opposition to the policies by giving the reformist movement led by Mr. Deng a moral cast that it has lacked until now.
- Prepare the atmosphere for changes of the political system to begin next year. Such changes, as envisioned by party leaders, would focus on making China's huge bureaucracy more efficient and ending such "feudal" practices as life tenure in leading posts.

Communist Party leaders have identified the main resistance to the urban and industrial economic policies as coming from middle-level Communist Party and government cadres who fear a loss of their influence and privileges.

In some cases, the cadres' resistance to the Deng policies is passive: They delay decisions and paperwork to the point where business comes to a halt.

In the new campaign, Mr. Hu, Mr. Deng and others have seized on widespread concern over spiritual, or ethical, matters, but they are placing the emphasis on the need to develop a code of ethics rather than focusing on "evil and decadent" Western influences.

China Exhorts Peasants to Heed One-Child Rule

Los Angeles Times Service

BEIJING — China has opened a campaign to strengthen enforcement of population-control policies in rural areas where nearly 800 million people live and where resistance has been the strongest.

The authorities said it appeared that population rules were being eased or ignored in the countryside because food is more food available now.

Beijing's municipal Communist Party committee sent a letter to party members in the area around the capital on Friday. It urged them to marry late, to delay the decision to become parents and to conform to the limit of one child per family.

"The peasants' life has been greatly improved," the committee said. "However, if there is no efficient birth control, further increases in the standard of living will be restrained by population increases."

Peres Jeered at Ceremony Honoring Moroccan King

Reuters

ASHKELON, Israel — Thousands of Israelis jeered Prime Minister Shimon Peres as he dedicated a square Sunday to a former Moroccan king, Mohammed V, a day after Arab guerrillas killed a Jewish resident of this resort town.

The dedication ceremony, the first in Israel honoring an Arab leader, was to have been a celebration of Morocco's good treatment of its Jewish community and recent efforts to foster Middle East peace.

But the killing provoked anti-Arab sentiments as Israeli officials, leaders of the Moroccan Jewish community and Palestinian notables from Gaza gathered here, 30 miles (50 kilometers) south of Tel Aviv, to name a square after the father of the current Moroccan king, Hassan II.

About 3,000 demonstrators, held back by riot police, tried to shout down Mr. Peres. State television said residents set fire to a parked car with Gaza license plates.

The Israeli who was killed, Haim Azran, 34, was stabbed while shopping in occupied Gaza. His funeral was postponed until Monday in an apparent effort by city officials to prevent violence. Rabbi Meir Kahane, an exponent of anti-Arab views, visited Mr. Azran's family.

DOONESBURY

Bill to Deter Illegal Immigrants Fails in U.S. House, 202-180

New York Times Service

WASHINGTON — A yearlong drive to rewrite U.S. immigration law to control the flood of aliens entering the country illegally has ended, with the House of Representatives' refusal to consider a comprehensive bill.

Supporters of the legislation said it was dead and indicated that it might not be revived for years.

The bill, like similar efforts in the past, would have offered amnesty to many undocumented aliens but would have sought to deter new illegal entries by imposing sanctions on employers who knowingly hired them.

By a vote of 202-180, the House defeated Friday a resolution to bring the bill to the floor.

Republicans, who voted against the resolution by 145-13, complained that they would not have any opportunity to amend or delete a section of the bill that they regarded as much too generous to illegal aliens already working on American farms. Democrats supported the bill, 167-57.

The Senate passed a version of the legislation in September 1985.

Asked if Friday's action meant the bill was dead for this year, Representative Peter W. Rodino Jr. of New Jersey, a Democrat and chairman of the Judiciary Committee who is chief sponsor of the House legislation, said, "So far as I'm concerned, it is."

Supporters of the bill, including the Reagan administration, said it was needed because, with the deterioration of Mexico's economy, growing numbers of aliens have crossed the border without visas. The Immigration and Naturalization Service expects to catch 1.8 million illegal aliens this year, about 30 percent more than last year.

Attorney General Edwin Meese 3d blamed the result of Friday's vote on House Democratic leaders' handling of debate on amendments to the bill. But Mr. Rodino said that the Reagan administration and other Republicans were responsible. "No one was really pushing the bill, least of all the president," he said.

Wade J. Henderson, a lobbyist for the American Civil Liberties Union, asserted that "grower greed and Republican intransigence were responsible for the defeat of immigration legislation this year." The civil liberties union said penalties under the bill might have caused employers to discriminate against Hispanic citizens and legal aliens.

The immigration bill, as approved by the Judiciary Committee, had three major elements: penalties against employers who knowingly hire illegal aliens, legal status for many illegal aliens already in the United States and permanent resident status for foreigners who can prove that they were agricultural workers in the country for at least 60 days from May 1, 1985 to May 1, 1986. In addition, Congress would provide additional money to strengthen enforcement of the immigration laws.

Representative Daniel E. Lungren, a California Republican who was accused by the bill's backers of having "waged all-out war" to defeat the measure, denounced a provision that would have barred the government from deporting Nicaraguans and Salvadorans for the next 18 months. Supporters of this proposal said the United States should give refuge to people fleeing turmoil in those two countries.

Reagan's Threat

President Ronald Reagan threatened Saturday to shut down the federal government unless legislators strip 44 programs and arms control provisions from a spending bill designed to keep the government operating, The Associated Press reported from Washington.

In his weekly radio address, the president criticized Congress's failure to pass its 13 regular appropriations bills on time. He said that lawmakers had again resorted to a last-minute resolutions to keep the government running. The the new fiscal year begins, Wednesday.

He also said restrictions on his arms-control policies contained in the House bill were "simply unacceptable."

He said he that if legislators "don't act responsibly, I won't have any choice but to shut" the government down. Mr. Reagan sent federal workers home in 1981 after vetoing a similar budget measure before the new fiscal year.

On Friday, the Senate Appropriations Committee approved by voice vote a \$556 billion measure. It could be brought up for full Senate debate on Monday.

On Thursday, the House passed its version, a \$562 billion bill. Each covers virtually every government department and agency, but the Senate has authorized more spending for the military and less for domestic programs.

Representative William H. Gray, Democrat of Pennsylvania, said the president wants to eliminate 44 federal programs, "cutting education for our children, health care for our elderly and aid for our farmers to pay for defense and foreign aid increases."

Democrats Fashion a Show of Reagan's Veto Tactic

By Sidney Blumenthal
Washington Post Service

WASHINGTON — For years, the Democrats have been routinely outmarched in the war of political symbolism by President Ronald Reagan. On Friday, the Democrats tried to gain the upper hand, however briefly, on the issue of South Africa.

With Mr. Reagan's veto of the South African sanctions bill due Friday evening, the Democrats felt that the president was about to commit an act vastly unpopular with the public and even with the Republican Senate leadership. At last, they hoped, they could score — and score they did.

The White House public relations team, for its part, hoped that if the president waited to issue his veto statement until well past the hour for the television evening news, the issue might fade unnoticed into the weekend.

But the president's maneuver backfired. Not only did the networks feature Mr. Reagan's expected South African decision, but Dan Rather, the anchorman on the CBS Evening News, pointedly said: "The president seeks to avoid as much newspaper and television coverage as possible."

The Democratic public relations effort to make prime-time coverage unavoidable was a 24-hour guerrilla operation, hastily put together by a small group of Capitol Hill staff members, with the approval of their superiors.

On a day's notice, they constructed a protest that seemed expertly arranged. The Democratic notables were there to express outrage: From the Senate came Edward M. Kennedy of Massachusetts; Paul Simon of Illinois, Alan Cranston of California and Donald W. Reigle Jr. of Michigan. From the House, along with dozens of others, came Mickey Leland of Texas, Ronald V. Dellums of California and and William H. Gray 3d of Pennsylvania.

The podium was stationed on the Capitol steps at the peak of what is commonly called "TV Triangle," a spot where a group of any size appears to be a crowd scene, with the Capitol dome as a backdrop. Two American flags framed the Democrats, who stood behind a huge banner reading "Congress Against Apartheid." And 17 television cameras whirred away.

'I want a firestorm. I want the story to be a reaction to Reagan — the reaction should be the lead. Who should I call? Kennedy?'

— Christopher Matthews, congressional aide

The event began the morning before, in the office of the California Democratic Delegation, in the House Annex.

Pamela Barry, the associate director, and Deborah E. McFarland, the executive director, were praising the singer Paul Simon's new album, "Graceland," which protests South African apartheid. Then they started talking about Mr. Reagan's anticipated veto. Why not An Event?

"We started making telephone calls," said Ms. Barry. The first was to Representative Don Edwards, the California delegation's chairman, who gave his approval.

"We just called everybody involved in the leadership of this issue," said Mrs. McFarland.

By 4 P.M. Thursday, Mr. Edwards had spoken on the House floor with Mr. Leland, leader of the Black Caucus, and called the speaker's office himself. Ellen Boyle, Mr. Leland's aide, soon turned up at the desk of Christopher Matthews, the speaker's press secretary.

"I want a firestorm," said Mr. Matthews. "I want the story to be a reaction to Reagan — the reaction should be the lead. Who should I call? Kennedy?"

Representative Gray wandered in. "What's Lugar been saying?" he asked Mr. Matthews, referring to Richard J. Lugar, Republican of Indiana and chairman of the Senate Foreign Relations Committee, who had called on Mr. Reagan not to veto the legislation.

Friday morning, Ms. Barry and Mrs. McFarland went to Mr. Edwards's office to pick up an American flag. "I called the sergeant at arms," said Mrs. McFarland, "and he said we could bring it. We hope this will put the brakes on the Great Communicator."

They arrived at the "TV Triangle" at 11 A.M., an hour early.

Just before noon, the Democratic spokesmen moved like a single body toward the massed microphones and cameras. The denunciations of Mr. Reagan's policy went on for almost an hour.

By Friday night, even before the White House announced the veto, the television networks were broadcasting the Democratic response.

WP

Margaret M. Heckler, U.S. ambassador to Ireland.

U.S. Senate Bars Army in Drug Fight

By Helen Dewar
Washington Post Service

WASHINGTON — The Senate has rejected a proposal that the armed forces be deployed to combat drug smuggling but has indicated support for the imposition of the death penalty for major drug traffickers.

The action came Saturday as Republican and Democratic leaders joined in an attempt to pass an anti-drug bill without the controversial provisions approved earlier by the House of Representatives.

The proposal to use the military in drug interdiction was rejected 72-14 after Senator Sam Nunn, a Georgia Democrat, attacked it at length in scathing terms.

Mr. Nunn, the senior Democrat on the Armed Services Committee, contended that the proposal could divert the entire U.S. military force to the job of sealing the borders against drug traffic.

The Senate considered a series of amendments to the drug bill under a bipartisan leadership strategy of fending off proposals from left and right to assure final passage before Congress adjourns early next month.

Among these proposals were the use of the military in drug interdiction, imposition of a federal death penalty for the major drug dealers, relaxation of judicial restraints on the use of illegally obtained evidence in trials, and mandatory testing for drug use.

Most of the proposals were approved by the House but were opposed by liberals in the Senate as an abridgment of civil liberties and an excessive response to political pressures during the current election campaign.

Senator Alan J. Dixon, an Illinois Democrat, brought up the military deployment proposal.

The proposal would have required the president to use military equipment and personnel to locate, pursue and seize drug-carrying vessels and aircraft and to arrest suspected offenders in cases of hot pursuit.

After Senator Dixon's proposal was defeated, Senator Mack Mattingly, a Georgia Republican, introduced the death penalty proposal, which the Senate refused to kill, 60-25.

Senator Mattingly then withdrew the amendment, saying the vote had accomplished its purpose in sending a "very strong message" that the Senate wants to accept the House death penalty provision in conference committee.

The scaled-back bill would authorize \$1.4 billion for interdiction, enforcement, education and treatment efforts in the fiscal year that begins on Wednesday.

It would also increase criminal penalties for most drug offenses and cut off U.S. aid to drug-trafficking countries unless the president certified that their governments were cooperating with anti-drug efforts.

U.S. Inquiry On Embassies Said to Grow

By Howard Kurtz
Washington Post Service

WASHINGTON — State Department investigators looking into the possible misuse of an embassy entertainment fund by the U.S. ambassador to Switzerland are examining similar funds at U.S. embassies in Ireland and other countries, administration sources said.

The department's inspector general is examining whether the privately raised funds, which are added to State Department entertainment allowances and are supposed to be used primarily to entertain foreign citizens, were improperly spent on wining and dining Americans, the sources said Friday.

They said preliminary evidence concerning the entertainment funds of the U.S. ambassador to Ireland, Margaret M. Heckler, and other envoys was less serious than that involving the ambassador to Switzerland, Faith Ryan Whittlesey, which the Justice Department is investigating.

Representative Dan A. Mica, a Florida Democrat and chairman of the House Foreign Affairs subcommittee on international operations, disclosed Friday that his panel had been examining the U.S. Embassy fund in Bern, Switzerland.

According to informed sources, John C. Whitehead, a deputy secretary of state, recently blocked an effort by other department officials to issue new regulations that would have restricted or barred the use of private donations for embassy entertainment. The sources said that Mr. Whitehead had concluded that the use of these donations was not improper.

Private contributions for the entertainment funds at the U.S. embassies in Switzerland and Ireland were raised by Fred H. Gottfurcht, a leading California fund raiser for President Ronald Reagan. Mr. Gottfurcht was appointed by Mr. Reagan to the board of United Service Organizations, or USO, which organizes entertainment and social services for the U.S. armed forces.

"There's a clear question whether or not it was even legal to spend the money the way it was spent," Representative Mica said.

There were few details on possible abuses at the embassies in Ireland or elsewhere.

In the Swiss Embassy case, State and Justice Department investigators were looking at Mrs. Whittlesey's hiring of a White House aide after the aide's father had contributed \$5,000 to the fund.

Embassy records show that Mr. Gottfurcht, who later was Mrs. Whittlesey's guest in Switzerland, helped raise at least \$83,000 for Mrs. Whittlesey in tax-deductible donations. Mrs. Whittlesey used the fund largely to entertain administration officials and U.S. conservatives and businessmen, several of whom had contributed up to \$5,000 to the fund, the records show.

"I've been in the Foreign Service for over 30 years, and the one rule we've always had in the use of those funds is that it was for foreigners," Gerald Lamberty, president of the American Foreign Service Organization, said Friday. He said that expenditures primarily for Americans would generally be rejected by embassy administrative officers.

Mrs. Whittlesey, former director of the White House public liaison office, has been unavailable for comment.

AMERICAN TOPICS

General Takes Swipe At Combat-Readiness

An army general, in response to a request from his commanding officer for his "unconstrained views," has written a scathing appraisal of the army's training and reserve forces, The New York Times reports.

Major General Robert E. Wagner, commander of the Reserve Officer Training Corps, asserted, "Our reserve components are not combat-ready, particularly National Guard combat units." Such units would provide nearly half the army's wartime strength.

The general's criticisms were contained in a private letter to his superior, General Carl E. Vuono, head of the Training and Doctrine Command at Fort Monroe, Virginia. General Wagner said that in the training of active forces that there were "good divisions and bad divisions" in which the degree of readiness "was strictly the result of the energy and professionalism of the division commander." He added that "every division in the army appears to operate in its own sandbox."

General Wagner sent copies of the letter to seven generals in the training command. Other copies, apparently supplied by an officer who disagreed with him, soon reached National Guard officers and reporters at the Pentagon.

General Wagner said through an army spokesman that he stood by the letter, but that he would have toned it down if he had known it would be made public.

Short Takes

Americans abroad who wish to vote in the Nov. 4 general election must register with their local voting districts by Oct. 6. Voters can register by filling out and mailing federal post card applications. These are available at U.S. embassies, consulates and military posts, as is information on varying state requirements.

Glenville High School in Minnesota defeated Ellendale-Geneva 14-8 in football this month to end a losing streak that began eight years, and 70 games, ago. Glenville, a town of 850 people, has one of the smallest schools in its conference, with only 27 seniors. The superintendent, William Bjorklund, said that the pupils "handled that losing streak a lot better than our adults."

Shorter Takes: State lotteries took in \$9.3 billion in the 1985 fiscal year, a 25.5 percent increase over 1984, according to the weekly magazine U.S. News & World Report. • Of the 3,200 U.S. universities and colleges, 600 offered graduate programs in business last year, 120 more than in 1978, and they granted about 70,000 business degrees, 44 percent more than in 1978. • The 30,505 U.S. supermarkets, defined by the National Association of Retail Grocers as those with sales of \$2 million or more a year, have average sales of \$135,000 a week.

Notes About People

Imelda R. Marcos reportedly brought 200 suitcases to the United States when she went into exile with her husband, former President Ferdinand E. Marcos of the Philippines. But President Corazon C. Aquino brought just two suitcases on her recent eight-day U.S. trip, telling reporters who asked, "I wouldn't know what I would do with 200 suitcases."

Admiral Elmo R. Zumwalt Jr., now retired, told this story on himself to The Washington Post: While chief of naval operations, he got lost jogging in Houston. He had no glasses to read a phone book to call his host and no money for the call. He found a construction worker to look in the phone book. The number was unlisted, so the admiral called the Pentagon collect to ask where he was staying. The worker gave him a lift there. On the way the man asked Admiral Zumwalt what he did for a living. "I run the navy," he replied. The man said, "You don't know where you live and you can't read, and you expect me to buy that?"

NAMING THE ROSE
The House picked it. So did the Senate. Now it's up to president to make it official.

To Congress, a Rose Is a National Flower

Both houses of Congress, ending a debate dating from the 19th century, have designated the rose as the national flower, and the bill is expected to be signed by President Ronald Reagan.

The rose won out as "the national floral emblem" over such other flowers, introduced in past bills, as the marigold, dogwood, mountain laurel, daffodil, orange blossom and even corn tassel and just plain grass. No type or color of rose was specified.

Advocates noted that the rose grows outdoors in every state, that it is native to America (fossilized remains have been dated from 35 million years ago), that it has inspired more poetry and song than any other flower and that while it symbolizes peace, its thorns give it a formidable defense.

— ARTHUR HIGBEE

Herald INTERNATIONAL Tribune

Published With The New York Times and The Washington Post

An Unpopular Veto

In this season of rising awareness of the ravages of apartheid, the Reagan administration had a chance to form a broad national and international coalition supporting, by pressure and by diplomacy, peaceful change in South Africa. The chance is evaporating. The positions of the United States, Europe and the Third World, and of the White House, the State Department and Congress, lie strewn about like so many jackstraws. The South African regime is nicked by the several cuts but, it appears, not in a way that would turn its anger and fear into concentration on a serious political program. Much of the black opposition in South Africa is embittered by American policy. President Reagan, far from playing the diplomatic leader, is engaged in political damage control. His veto of sanctions legislation deepens his dilemma.

He has always had trouble conveying a personal responsiveness to the injustices of South Africa. He made no advance across this threshold requirement on Friday, thereby dulling the ring of his otherwise reasonable contention that the wrong kind of sanctions punish blacks. Again there was the routine condemnation of apartheid as "abhorrent." Again he paired apartheid, the evil that blacks know, with "Marxist tyranny," the evil that he most fears. He urged that Pretoria be held "at arm's length," *ignoring his partnership with Pretoria* in Angola. As for the matter of blacks joining the political process, he passed it by, referring to the African National Congress as though it were no more than a Communist and terrorist organization.

Republican moderates in the Senate had begged the president to embrace a position that would let him harness the raging political currents. The veto distances him further from a working consensus. An override campaign had already begun. Democrats are sure to use the Reagan South Africa policy as an issue in the fall elections. This atmosphere does not portend a kind reception for other steps that the president is expected to take soon — milder sanctions of his own, an aid offer to selected neighbors of South Africa, and perhaps the naming of a black ambassador.

Much has been claimed for sanctions. It is better to be more modest and simply to hope that, if applied intelligently, they may contribute positively to South Africa's recalculation of its own choices.

Certainly President Reagan, by his hesitancy, has not intended to "wink" at apartheid. But his policy has not had the essential moral clarity that would let him take command of the democratic foreign opposition to apartheid *and help South Africans* find their way. Now he is reduced to finding a bare third of one house of Congress to spare him political irrelevance on one of the *most urgent issues of the day.*

— THE WASHINGTON POST.

As Congress had made plain with its lopsided votes, the president who Friday vetoed its angry, calibrated sanctions against South Africa does not speak for the American people. There will be time to weigh his arguments against Congress overriding his veto, but his continued resistance makes him appear as apartheid's virtual defender. The repugnant symbolism of his veto calls for instant protest.

The vetoed bill is not the sweeping measure voted by the House of Representatives but the moderate Senate bill shaped by Richard Lugar of Indiana, the mainstream conservative Foreign Relations Committee chairman. It expresses condemnation of apartheid without threatening great ruin. It would forbid new investment, curtail loans and imports and deny landing rights to South African airliners. And all penalties would be lifted if Pretoria freed political prisoners and started good-faith negotiations with responsible black leaders.

The reasons for Mr. Reagan's resistance were amply set forth before the veto. He dislikes sanctions against South Africa, but he likes them against Libya or Nicaragua. He believes that sanctions will hurt the blacks they are meant to help, although the Senate took pains to avoid just this effect. *He resents congressional meddling in foreign* policy, but, by refusing to move toward the consensus plain in Congress and the country, he has brought this collision on himself. He has scorned appeasement elsewhere in the world, but in South Africa he has been content to stand small. There would be no revolt in Congress had his policies worked in southern Africa.

This is not just a failure of policy, but of humanity. Consider the experience of Malcolm Fraser, the conservative former prime minister of Australia. His views were eagerly solicited when he endorsed U.S. policy in Central America, but ears are closed to him as leader of a Commonwealth mission trying to promote multiracial negotiations in South Africa. No one wanted to listen, Mr. Fraser concluded, because of a blind fear of communism and an unwarranted belief that Pretoria will listen to reason.

"What if 1,800 whites had been killed by some regime somewhere in the world," Mr. Fraser also remarks. "Have we got to such a stage that we accept as normal for racist security forces to kill blacks, and that's part of the 20th century?" To that terrible question, President Reagan's veto offers a more terrible answer.

— THE NEW YORK TIMES.

No Exit From Lebanon

Lebanon's murderous, multi-sided civil war has baffled and defeated all outsiders who have tried either to end or to exploit it. The contestants have included Syria, Israel, France, the United States, the Vatican and UNIFIL, the nine-country United Nations Interim Force in Lebanon. This record of failure has to be the starting point of any analysis of the newest flare-up in southern Lebanon, which finds Israelis again attacking Palestinian positions while a pro-Iran Shiite militia, the Party of God, attacks the mostly defenseless UNIFIL peacekeepers.

UN peacekeeping can work where belligerents welcome a noncombatant force to keep them at arm's length. Israel and Syria, which do not want to clash, are content to respect UNIFIL's thin blue line along the Golan Heights. But in southern Lebanon peacekeeping has collapsed for a familiar reason: the blue-helmeted UN troops are trapped in a crossfire among Lebanese factions, none strong enough to prevail and each reaching out to foreign protectors.

Four years before its tragic, futile invasion of Lebanon in 1982, Israel carved out a "security zone" in southern Lebanon. And it has tried to recreate that buffer, since its withdrawal from Lebanon, by again forging a virtual alliance with a Christian militia operating in a predominantly Shiite area. But the Shiites are now bitterly split into a relatively moderate majority group, Amal, and the fiercely anti-Israel Party of God.

The lightly armed UNIFIL force was sent into southern Lebanon in 1978 on the implausible premise that Israel could be induced to withdraw. But even if UNIFIL were not itself in jeopardy, Israel has never been persuaded to defer to an army accountable to a largely hostile United Nations. Having paid bitterly for its Lebanon invasion, which made a wretched mess worse, Israel will not lightly expose its northern settlements to a porous frontier.

Like Sartre's "No Exit," this hell amounts to a perpetual conflict among different actors in the same small cell. Amal, fiercely anti-PLO, gets guns from Syria for use against both Israelis and the pro-PLO Party of God, yet Israel aims to assist Amal by attacking Palestinian strongholds north of Shiite villages. At some point Israel may be induced to put more trust in the ability of UNIFIL to cooperate with Amal so as to contain assorted Palestinians and the Party of God. But that day seems far away.

— THE NEW YORK TIMES.

Other Comment

A Moment Full of Optimism

Eduard Shevardnadze, the Soviet foreign minister, must be nursing uncomradely feelings toward his colleagues in the KGB. For the past week, when he might have been smiling and glad-handing his way around the United Nations, he has instead been scuttling from meeting to meeting with his counterpart, George Shultz. And all because the KGB, responding to some half-forgotten instinct, chose to entrap an American journalist and charge him with spying.

It is easy to mock, but Mr. Shevardnadze deserves credit for trying to right a wrong that is upsetting East-West relations at a moment otherwise full of optimism. After years of posing and striking attitudes, both sides have at last begun to talk sensibly about arms control. Within a few months to a year it is possible to envisage a series of agreements that would, for the first time in a generation, reverse the senseless accumulation of nuclear weapons.

There are many reasons why the outlook is brighter, and the regime Mr. Shevardnadze represents is one of them. Mikhail Gorbachev is signaling as plainly as he can that he wants a second summit with President Ronald Reagan, and that he is prepared to swallow some of his own words to get it. Right across the board, from the Geneva nuclear and space talks to the Stockholm conference on confidence-building measures, Soviet positions are shifting.

Winning more substantial agreements on nuclear and chemical weapons will require concentrated effort and a period of calm in superpower relations, uninterrupted by incidents like the shooting down of the Korean airliner or the arrest of Nicholas Daniloff. But the omens, at least, are more favorable than they have been for several years. The prize is worthwhile, and the opportunity too valuable to be lost.

— The Observer (London).

True, the Soviets have made some concessions, but for them to concede more would be contrary to the whole logic of maintaining in Europe forces far in excess of what is required to keep their often rebellious satellites in line.

— The Japan Times (Tokyo).

INTERNATIONAL HERALD TRIBUNE

JOHN HAY WHITNEY, *Chairman 1958-1982*

KATHARINE GRAHAM, WILLIAM S. PALEY, ARTHUR OCHS SULZBERGER
Co-Chairmen

LEE W. HUEBNER, *Publisher*

PHILIP FOISIE, *Executive Editor* • WALTER WELLS, *Editor* • SAMUEL ABT, KATHERINE KNORR, and CHARLES MITCHELMORE, *Deputy Editors* • CARL GEWIRTZ, *Associate Editor* • ROBERT B. WHITCOMB, *Financial Editor* • ROBERT J. DONAHUE, *Editor of the Editorial Pages*

RENÉ BONDY, *Deputy Publisher* • ALAIN LECOUR and RICHARD H. MORGAN, *Associate Publishers* • FRANÇOIS DESMAISONS, *Circulation Director* • ROLF D. KRANEPUHL, *Advertising Sales Director*

International Herald Tribune, 181 Avenue Charles-de-Gaulle, 92200 Neuilly-sur-Seine, France. Tel.: (1) 46.37.93.00. Telex: Advertising, 613595; Circulation, 612832; Editorial, 612718; Production, 630698.

Directeur de la publication: Walter N. Thayer.

Editor for Asia: Michael Richardson, 5 Canterbury Rd., Singapore 0511. Tel 472-7768. Tlx RS56928
Managing Dir. Asia: Malcolm Glenn, 50 Gloucester Road, Hong Kong. Tel. 5-8610616. Telex: 61170
Managing Dir. U.K.: Robin MacKichan, 63 Long Acre, London WC2. Tel. 836-4802. Telex 262009
Gen. Mgr. W. Germany: W. Lauterbach, Friedrichstr. 15, 6000 Frankfurt/M. Tel. (069) 726755. Tlx 416721
Pres. U.S.: Michael Conroy, 850 Third Ave., New York, N.Y. 10022. Tel. (212) 752-3890. Telex 427175
S.A. au capital de 1.200.000 F. RCS Nanterre B 732021126. Commission Paritaire No. 61337

ISSN: 0294-8052.

This Is the Week for a New Development Agenda

By Pranay Gupte

NAIROBI, Kenya — When world finance ministers gathered in recent years for the annual meetings of the World Bank and the International Monetary Fund, there were high hopes that they would adopt strong measures to straighten out financial and development problems involving both the industrialized and the poor countries. But the meetings were usually distinguished by little more than partying and perorations.

This time the ministers, who convene formally in Washington on Tuesday, have a rare opportunity to fashion a bold agenda for growth and to revive the pragmatism of the 1940s that produced the great development programs of the postwar period and offered newly emerging nations a chance to achieve prosperity.

Various circumstances have come together to create this opportunity. The World Bank has a new president who seems receptive to innovative ideas. The managing director of the IMF is resigning, and a successor will soon be named to the post of world financial monitor. The U.S. administration's reading of Third World development trends seems increasingly realistic. The U.S. Treasury secretary no longer believes that it helps poor countries to abandon them to the vicissitudes of the world economy.

The 92-member General Agreement on Tariffs and Trade has decided to open negotiations next year on trade liberalizations. And finally, many influential Third World leaders now appear willing to abandon the leftist shibboleths and programs that brought ruin to their countries.

A new development agenda should step up cooperation between the wealthy donor nations and the 127 states of the Third World, based on the following principles:

- There must be a fresh emphasis on the coordination of aid programs. Since the end of World War II the donor nations have committed more than $1.5 trillion in grants, gifts, commercial credit and various forms of concessional aid to developing states. Third World countries themselves have channeled as much, if not more, of their own money into their development programs. But, all too often, aid agencies, including the World Bank and the IMF, have worked at cross-purposes. At a time of thinning aid to the Third World, donor agencies must take steps to make their aid programs more efficient.

- Development programs must be sensitive to the local cultures of the Third World. It is unproductive for outside experts to impose programs and projects that do not take account of the religious practices, social customs and traditions of the old societies being helped. Local people must participate in the development projects. What is needed is a judicious blend of programs emphasizing basic health care, housing, education — especially female literacy — family planning and accelerated agricultural and industrial production.

- The developed world must adjust its financial and trade policies. Attention should be given to reducing bureaucratic meddling in Third World development, providing fair agriculture prices, controlling currency fluctuations, curbing protectionism, instituting debt-readjustments and eliminating wasteful subsidies. Western nations must stem the tide of protectionism that restricts access to their markets, and open their markets to Third World agricultural products.

Export promotion is vital for developing countries because of their need to purchase essential imports and earn hard currency with which to service debts. (The Third World now reportedly owes $1 trillion to Western financial institutions). Third World states complain that they are being asked to be fiscally prudent and produce more — yet they are earning less. And unless sanity is restored to the global currency system, Third World states will remain at the mercy of fluctuating exchange rates.

- Recipient countries must be pressed to promote their private sectors, encouraging nongovernmental organizations and private voluntary groups, both of which are generally more effective in development work than government agencies. Donors and recipients must agree on which policies work best to create the appropriate climate for growth.

What is called for, then, is a new compact between the haves and the have nots of the world. Participants at the meeting in Washington must be mindful that this is an interconnected world, in which the troubles of poor countries often wash up on Western shores in the form of terrorism and unmanageable migration.

The world's economic elite has it in its power to promote growth among the other four-fifths of the world's people as it creates conditions for a more secure world peace.

The writer has just completed a book on economic and political development in the Third World. He contributed this comment to The New York Times.

Europe's Farm Policy: An Extravagant Boomerang

By Andy Stoeckel

CANBERRA — It is well known that the European Community's Common Agricultural Policy is financed by value-added taxes and other levies, with payments being made through the Community budget. Less widely known is that these direct taxes make up only about a third of the benefits that farmers receive.

In addition to taxpayers' contributions through the EC budget, there is expenditure by national governments, plus benefits from the higher farm prices that result from support policies which increase prices to consumers.

According to a study published last year by the Bureau of Agricultural Economics (BAE) in Canberra, total annual support to EC farmers has amounted to between 60 and 70 billion European Currency Units (about the same number of U.S. dollars) in recent years, in 1984 values. Large farms get most of this: Three-fourths of it goes to the one-fourth of the farms that are economically the largest.

Who bears the burden of this cost? The transfer of benefits to farmers has meant that production in Europe has tended to rise faster than consumption. Stocks and exports have risen, buoyed by the subsidies. Farm policies have transformed the EC: The world's largest importer of temperate-zone agricultural products has become the second largest exporter.

Such major changes must have repercussions elsewhere in the economy. Higher food prices mean a higher cost of living, higher wages and a loss of competitiveness. Taxes must be raised to pay for all this, affecting prices more generally.

Inflation-adjusted food prices in the Community have fallen slightly over time, but not as fast as elsewhere. What would happen to the cost of living, real wages and competitiveness if Europeans could purchase butter and other goods at the same low prices as Soviet consumers can?

Meanwhile, the surpluses are sold in world markets. Other countries (the United States, for one) react, and the result is depressed world prices. The lower the world price, the greater the loss. How can the European Community become prosperous while losing money in this way?

Another BAE study has found that Europe's manufacturers and the jobless are hardest hit by the Community's farm policies.

EC support for agriculture relies critically on restricting agricultural trade. Without the restrictions, cheap imports would come flooding in; and cheap, EC-subsidized exports might even be resold to European buyers. But trade is a two-way thing; the only point in selling something is to be able to buy something. When agricultural trade is restricted, so is manufacturing trade.

By restricting agricultural imports and artificially promoting agricultural exports, the Community has in effect taxed manufacturing exports and subsidized manufacturing imports.

The effects of this taxing of manufacturing is reflected in EC trade performance. A look at the data since 1964 shows that the Community's share of OECD manufacturing trade has fallen. For example, its share of OECD exports of equipment goods has fallen by 25 percent.

By in effect taxing manufacturing exports and subsidizing imports, Europe has reduced the competitiveness of its manufacturing sector. The net result is that the manufacturing sector is smaller and overall unemployment is higher.

In terms of total EC employment, it might be thought that the Common Agricultural Policy had kept farmers on the land and saved jobs. Certainly there have been some extra jobs, particularly in industrial areas serving agriculture. But the European Commission itself notes that there "has been a loss of one job out of agriculture for every minute over 20 years."

The structure of European agriculture has caused this rural exodus. Ten percent of the farms produce half the output: The large farms have received the most encouragement to expand — taking over small farms, using more fertilizer and machinery, but employing no more labor.

At the same time, the loss of competitiveness in manufacturing has contributed to deindustrialization. And widespread labor market rigidity has prevented new jobs from being created. The more the surpluses and export subsidies depress world agricultural prices, the greater the loss in terms of trade and the fall in real income.

The writer, former director of the Bureau of Agricultural Economics, has established a private economics research group in Canberra specializing in trade policies. He contributed this comment to the International Herald Tribune.

When Allies Fall Out, the Alliance Can Fall Apart

By William Pfaff

PARIS — A fine row has broken out between the U.S. government and Britain's Labor Party. It could as well be a row with Britain's Liberal Party, if Washington were fully aware of that party's existence.

Two major Washington figures are making what Labor leaders call "a crude attempt" to swing voters in Britain from Labor to the Conservatives. They are Defense Secretary Caspar Weinberger and Assistant Defense Secretary Richard Perle, appearing on British television just as Labor's annual conference begins.

The two say much the same thing: that the Labor Party's official stand on NATO and nuclear weapons is "wildly irresponsible" (Mr. Perle's phrase) and could "break up" NATO (according to Mr. Weinberger).

The Labor Party position is that Britain should rid itself of nuclear weapons, its own and those of the United States. Labor would end American use of British bases for U.S. bombers and missiles.

The Labor Party has drawn back from a number of its more radical policy positions under the influence of its leader, Neil Kinnock, but both he and the party majority seem solidly agreed on this matter. Labor does, however, propose to spend the money saved by scrapping its own nuclear missile submarines on conventional forces assigned to NATO.

The Liberal Party, the more fractious and ideologically unruly partner in the Liberal-Social Democratic Alliance, held its annual assembly last week and came dramatically apart on this same question.

The Liberals' leader, David Steel, had reached a pre-conference agreement with the Social Democrats on a common defense policy. According to this, Britain would attempt to arrive at a pact with France to give Europe something that could be called a European nuclear deterrent. There would be cooperative targeting and submarine deployment by Britain and France, overlapping refit schedules, and the use by British submarines of French nuclear missiles rather than American.

> *American officials still do not think unthinkable thoughts. That is their professional deformation.*

Attractive in principle, difficult to achieve in practice, this plan was mainly meant to appease the anti-American, anti-nuclear and unilateralist forces inside the Liberal Party while keeping the Social Democrats tolerably content. The latter are mostly former Labor Party people who quit Labor precisely because of its growing anti-Americanism, anti-nuclear stands and unilateralism.

Last Tuesday the Liberal Assembly delegates, in joyous uproar, narrowly rejected this compromise and voted down the idea of a European deterrent. No doubt something will yet be patched up between the two parties to allow them to go into the next general election — which may not be so far away — with a common policy, some kind of a policy.

That, however, will not change the fact that a sizable part of the British political class manifestly opposes the British deterrent, the U.S. nuclear deterrent and most of what it sees in current U.S. security policy.

Labor and Liberals together, or Liberals and the SDP, still do not add up to a new British government, or at least they do not do so yet. But Washington would be very imprudent not to take seriously this British opposition to things as they are in the alliance. Americans might look with equal apprehension toward West Germany, where the same nuclear opposition exists and thrives. They might look, and find pain, at the Netherlands or Denmark.

Mr. Weinberger and Mr. Perle are telling British voters the truth, however impolitely. Britain cannot expect to give up its own deterrent and expect to benefit from America's.

It cannot expect to strike a damaging blow to NATO's present structure and deployment of forces, and have the other NATO powers take this with a tolerant smile. West German public opinion, skittish enough on the nuclear issue, simply would not tolerate the transfer of virtually all of NATO Europe's tactical and intermediate-range nuclear weapons to West German soil, seemingly destined for German targets. If Britain does what Labor and the Liberal Assembly delegates want it to do, NATO will break up.

When Messrs. Weinberger and Perle issue these warnings, they think they are going to be heeded and in the end nothing bad will happen; hence, nothing need be changed in Washington. U.S. officials still do not think unthinkable thoughts. That is their professional deformation. American foreign policy continues to be run largely as an adjunct to the running of American election campaigns.

Washington does not worry about European public and political opinion because the unuttered but almost universal assumption made in Washington is that America does not need NATO but the NATO allies needs America. Is this really true? We may soon have the chance to find out.

International Herald Tribune.
© 1986 Los Angeles Times Syndicate.

Green Light For Chinese, More or Less

By Flora Lewis

BEIJING — Foreigners are startled that once again China's leadership is urging that "a hundred flowers bloom" and is expecting a bright response from its artists. That was the slogan of a Mao Zedong campaign a generation ago, encouraging people and especially intellectuals to speak up. Those who responded were harshly punished. The short spring brought a long freeze.

But from young teachers and writers to Culture Minister Wang Meng, revival of the slogan is endorsed on the ground that it was the right idea. Mr. Wang calls it a "dream that did not come true." He does not regard that as cause for changing the name of the new campaign, which urges challenge, audacity and innovation.

Mr. Wang, a distinguished writer, has credibility on the decision to open the society to cultural diversity and criticism. He paid a heavy price during the Cultural Revolution for his own acceptance of the lure the first time. Now, rehabilitated, he says, people should believe it this time because the direction has been fixed.

Of course, this addresses the central question of where China is going and how steady is the compass. Diversity of expression, if not absolute freedom, is a crucial wind vane. Economic reforms, managerial adjustments, military reorganization and foreign policy alone cannot answer the question of what kind of society China is likely to become.

Deng Xiaoping's own slogan of "learning from facts" could mean a number of things. I find it difficult to understand how creative people can once more be persuaded to take the risk of raising their voices here. But they seem to be doing it, cautiously.

Their fate will have a lot to do with what "modernization" turns out to mean, and with the nature of China's coming place in the world. Modernization seems mostly to mean acquisition of managerial and technological skills. That could either bring a belated Orwellian mechanical society, or help resolve the 20th century's great ideological conflict in the way the 17th century religious wars in Europe ended with accommodation.

The Chinese leadership has recognized that it is not possible to advance society by sheer exhortation, threat and compulsion. They said that there was not a magic formula to be snitched in order to benefit from what seems to them the magical rise of Western prosperity and knowledge. They see that the benefits come from a social and cultural suppleness that they now ask China to accept.

All this is expressed in stiff proclamations, official propaganda, ambiguous but artful phrases such as "spiritual civilization," which is the way the Communist Party is about to announce to the people that it is looking after their moral as well as material needs, without saying how.

If this sounds complicated, it is at least a little nearer to the historic evolution of this unpredictable country than the good-guy thesis.

Hear Mr. Wang again. I asked him how on earth artists and writers could feel anew that they might dare plant "a hundred flowers." He answered, "They say in Shanghai, what do you do when you see the green light and the red light at the same time? A real artist decides for himself and doesn't mind what people say."

Up to a point, that works now because the information needs of economic reform have brought a proliferation of magazines and journals and publishers. The party is still in charge, but the party is not so monolithic. It is turning into an assortment of people who can make a decision, if only on media matters; some will publish what others reject.

Writers and filmmakers may find an outlet somewhere, even if they are officially criticized. "Before," Mr. Wang said, "when there was a green light, it was on everywhere, and when there was a red light it was on everywhere. Now it differs according to time and place."

This may be a subtle, deliberate way of putting the lid askew on the pot, letting some steam out without lowering the temperature or making the pot boil over. There is no room for open dissidence here, but there does appear to be a deliberate move to show that, while limits exist, they are being expanded.

Without speaking Chinese, I find I am affected by the use of imagery and metaphor to express what is not supposed to be made clear. My Western conclusion is that China is going through a period of using old words to mean new things, so that it can change without speaking too harshly to its long-suffering self.

The New York Times.

IN OUR PAGES, 75 AND 50 YEARS AGO

1911: Alarm in Tripoli

TRIPOLI — The Italian fleet is making a demonstration off the port [on Sept. 28], but no attempt has been made to land. A cordon is drawn all along the coast to prevent the landing of any further Turkish arms or men. The greatest excitement prevails everywhere. Banks remain closed, as well as all the business houses. Trade is completely paralyzed. The Europeans who remain are gathered in groups in the streets. Nearly all the Italians have sent their families away. Turkish pickets are parading the town night and day. The worst danger is that the Arabs will rise against the Italians who are here.

LONDON — The Daily Graphic comments: "Rarely has a nation given rein to its lawless appetite with more cynical effrontery than Italy in this matter of Tripoli. Without excuse of any kind, she swoops on the property of a friendly State."

1936: Toledo Siege Ends

TOLEDO — Raising the heroic siege of the Alcazar, White troops took complete possession of Toledo [on Sept. 27] and started converting the battered city into a base for the siege of Madrid. Defenders of the Alcazar celebrated the end of their 70-day ordeal by attacking the rear of hastily retreating Reds in their last sortie from the virtually ruined old citadel. Five hundred Civil Guards, 100 officers and cadets, 200 Fascist Phalangists and 100 other men made up the fighting force which saw Whites win the race with Reds for possession of the castle. One thousand women and children, largely belonging to families of the besieged fighters, hobbled out of the ruins to freedom, dazzled by the unaccustomed light of day. All of Fascist Spain celebrated what is being hailed as a tremendous victory, both moral and strategic, for the forces of General Francisco Franco.

OPINION

Self-Indulgence on the Hill And in the Administration

By George F. Will

WASHINGTON — If the disposition of the U.S. Congress is surly, that is because its situation is embarrassing. Congress is being praised for a tax reform bill the contents of which are as mysterious as Mongolia to many members who are primarily interested in something they would rather not talk about, thank you: "transition rules." And regarding deficit reduction, members fully understand that the cooked books and other dodges by which they are complying with the Gramm-Rudman law would get people in the private sector sent to prison.

What is going on? Self-indulgence, on a stupendous scale. But what Congress

Where was Shultz when Reagan was wrapping himself in Gramm-Rudman, as in the flag?

is doing in domestic policy is analagous to what the executive branch has done in the Nicholas Daniloff affair. The common thread running through recent actions is the purchase of immediate satisfaction by spending principles and mortgaging the future.

Secretary of State George Shultz says: "I was amazed at the outcry over making arrangements to get Mr. Daniloff out of a 6-by-10 cell into a more congenial environment while this was being struggled with." Amazed? The administration vowed that there would be no swap, no linkage of the Daniloff case and that of the spy Gennadi Zakharov, no acceptance of the equivalence of the cases. Then came the swap. The cases were linked as equivalent when the men were simultaneously placed in the custody of their governments' officials.

It was self-indulgent of the administration to set a dangerous precedent merely to satisfy its understandable desire for Mr. Daniloff to have a "more congenial environment." The administration's idea of success in this crisis is simple — the return of Mr. Daniloff. Because the Soviet Union has no desire to keep him forever, the administration will perhaps soon be claiming "success." As the president said when Jesse Jackson collaborated with Syria to enable Syria to avoid dealing with the U.S. government concerning release of a U.S. airman, "You can't argue with success."

But you can and should argue with it when it involves self-indulgent preoccupation with the immediate. Speaking of which, the tax simplification bill — 925 pages of relentless simplification — will pass, partly because of "transition rules" designed to mitigate the agony of "fairness" as it falls on certain friends of certain senators and congressmen.

The more than 300 of such rules exempt particular corporations and other interests from the rigors of reform. For example, tax subsidies (reformers will be opposed to such things in general, just as soon as these hundreds are enacted) are retained to enable nine communities to build stadiums to attract or retain teams. Without the transition rules — without a stupendous shower of pork — tax reform (also known as The Slaying of Special Interests by the Gleaming Sword of Virtue) might have died.

Passing appropriation bills is too banal an activity for a Congress that is busy bringing justice to South Africa and sports stadiums to needy cities. Therefore Americans have government by continuing resolution. Soon the president will be presented with a yes-or-no decision on a nearly $600 billion bill to keep government — the whole thing — ticking over. Perhaps he should veto it, to show how much an executive branch run by Republicans detests the sin of spending. Except ...

Mr. Shultz is cross because Congress is cutting the administration's foreign aid request. He is right to be cross: Such cuts will dangerously diminish U.S. influence abroad. But he is wrong to be, as he seems to be, surprised.

Mr. Shultz is the adviser the president trusts most. Where was Mr. Shultz when the president was wrapping himself in Gramm-Rudman, as in the flag? It was predictable that Gramm-Rudman, combined with the president's taxophobia, would mean severe cuts in foreign aid. Such cuts are the least risky choices for a Congress attacking the deficit by shrinking spending, not raising revenue.

And speaking, as we are, of the predictable consequences of self-indulgent Republicanism: Is Mr. Shultz really surprised that foreign aid is not faring well in an era that reflects the effects of 30 years of Republican rhetoric about how "government is the problem, not the solution to problems," etc.?

Congress complies with the Gramm-Rudman law with a mixture of fudged figures and one-time sales of assets. The saving of $13.3 billion is just enough to avoid across-the-board spending cuts.

Because Congress resorted to arithmetic gymnastics to achieve just $13.3 billion, Congress is apt to be even more self-indulgent next year, when hitting the deficit reduction target will require cuts of about $80 billion.

Perhaps it will indulge in a small "perfecting" amendment, just changing a number. The current Gramm-Rudman requires the deficit to be reduced to zero in five equal increments by 1991. Perhaps the perfected Gramm-Rudman will require 55 equal increments. Congress probably could succeed in cutting one fifty-fifth of the deficit and, hey, you can't argue with success.

Washington Post Writers Group.

The Last Chance: Old Maids Obtain a Statistical Reprieve

By Ellen Goodman

BOSTON — Have your parents been sending you veiled messages that read: Sweetheart, you aren't getting any younger? Did the creep down the hall tell you last night that he might be your very last chance? Did one of your married friends suggest that maybe it was time to place an ad — very discreet, of course — in the personals column?

MEANWHILE

If so, you are suffering the long-term effects of fallout from The Study. You know which one we mean.

By 30 years of age, The Study projected, a never-married woman had only a 20-percent chance of marrying. At 35, she had a 5-percent chance. At 40, the infamous Newsweek cover on The Study warned, she was "more likely to be killed by a terrorist." (A fate that we might wish on the writers.)

The results of The Study, annointed as the Harvard-Yale Study, were carried through the United States on wings of ill-will as swiftly as radioactive debris from Chernobyl. They fell silently all over the population and settled into the marrow of women in their 30s. Since then, the singles set has been glowing with anxiety: "Say it ain't so."

Well, guess what? Somebody says it ain't so. The figures looked funny to several people in the Census Bureau, including Jean Moorman. Unlike the great unwashed mathphobics among us, Miss Moorman is an analyst of marriage and family statistics. She did not genuflect to the three Ivy League statisticians. At 36 and married only three years ago, Miss Moorman said to herself, "I just didn't believe that the current 30-year-olds were not going to get married. There is an awful lot of marrying going on right now."

Miss Moorman and her colleagues did what statisticians do. They ran the numbers. Here is what they came out with: Of college-educated, 30-year-old women who have never married, 66 percent will eventually marry. Of 35-year-olds, it will be 41 percent. Of 40-year-olds, 23 percent. Of 45-year-olds, 11 percent.

The above information is offered to you in a form suitable for framing. Or for passing around at parties. One of Miss Moorman's colleagues has found this a more effective mood brightener among her peer group than unlimited amounts of chardonnay.

Is this just a case of dueling statistics? It is more like a case of dueling mathematical models. The Harvard-Yale people got into this whole catastrophe as an experiment, and for the first time used something called a parametric model. I will spare you the details, but it is regarded by its designer as risky for such projections. The Census Bureau people used the standard model.

"They think I'm wrong and I think they're wrong," said Miss Moorman philosophically. But she pointed to other weaknesses in The Study That Would Not Die. The sample, divided and subdivided, was rather puny. The dimmest prospects for black women were based on about 100 in each age group.

Moreover, what separates these two sets of statistics — the difference that produced the Old Maid Revival — is a dispute over whether educated women are postponing the marriage option or closing it out. Here too, the trends are in the Census Bureau's direction. Not only has the median age of women at first marriage been rising rather dramatically, especially for educated women, so has the overall marriage rate.

The statisticians behind both The Study and The Rebuttal do, however, agree on one thing. One of the Harvard-Yale team attested, "The bottom line is that we really don't know what will happen in the future."

These are statistics, not tea leaves; projections, not predestination. Nobody predicted the baby boom itself and nobody can predict when, how and whether the boomers will marry.

The appalling part of the media hype of The Study is that it transformed marital choices into marital chances. We have analyzed the glee that accompanied this feat. It struck with the power of a backlash. How nice now to have a second, user-friendly set of numbers that add up to one message: Relax.

Washington Post Writers Group.

LETTERS TO THE EDITOR

Gorbachev Is No Stalin

Regarding the opinion column "Daniloff Case Harms Gorbachev's Image" (Sept. 13) by Marshall T. Goldman:

Professor Goldman is so consumed by the Daniloff case and so obviously biased that he appears to be using the occasion to unfairly attack Mikhail Gorbachev. Does he honestly believe that the case will harm the Soviet leader's image? The irony is that while he was writing his comment, the Daniloff-Zakharov case was going through the first stages of resolving itself.

Professor Goldman should contribute some recognition to Mr. Gorbachev's continuous efforts for improved U.S.-Soviet relations and world peace. Describing him as "a throwback to Stalin" was harsh and undeserved.

ANDREAS FARMAKIS.
Athens.

Different but Not Dumb

Bravo to Charles Krauthammer for "Results Belie the 'Stupidity' of the Kremlin Tough Guys" *(Sept. 20)*. The sooner the United States starts to see past the ill or odd cut of Communist cloth, the wiser will be U.S. policy decisions regarding Soviet strategy. The United States cannot afford to be lax or lighthearted regarding these adversaries, and adversaries they remain.

R.H. BATUSHANSKY FISHMAN.
Jerusalem.

The Future of Hong Kong

In her column "On China's Hopes for Hong Kong" *(Sept. 20)*, Flora Lewis writes: "The crux of the deal with Britain was that key parts of the territory were held on leases from China that expire in 1997. It has been agreed that the leases will be resold for 50 more years, to 2047, with half the proceeds going into a development fund."

Britain's leases expire in 1997, at which time Hong Kong is Chinese real estate. The Chinese-British agreement has made possible the extension of old land leases for 50 more years and the initiation of new ones. Since all land in the colony is crown land, it is the Hong Kong government that leases or re-leases land, and the government has agreed that half the proceeds from its regularly held land auctions will go into a development fund during the transition to Chinese sovereignty.

PATRICK L. SMITH.
Hong Kong.

Over the Borders of Humor

Art Buchwald owes an apology to Mexico. In his ironic comments *(Sept. 18)* on the Pentagon's war on drugs he seeks, tongue-in-cheek, to calm fears about the risk of the military being used "for other things besides finding dope." "May I remind you," he writes, "that this isn't Chile. Our military will not spy on innocent people — only those who are guilty." He goes on to reassure a worried U.S. citizen that the military "will be expected to halt penetration of illegal aircraft into the United States and monitor the U.S.-Mexican border."

What a simplistic, cheap and uninformed shot at a great country for which the United States, for obvious strategic, economic and cultural reasons, should be fashioning a "good neighbor" policy. It is not even funny.

JENS A. JORGENSEN.
Brussels.

Two Standards for Animals

I admire environmentalists working to save endangered species like the rhinoceros. The opposition to the killing of pilot whales in the Faeroe Islands, however, is an example of ignorance and double standards. *("In the Faeroes, End of the Whaling Idyll," Sept. 17.)* Animals bleed whether killed in a slaughterhouse or on the shores of the Faeroe Islands.

The killing of pilot whales is not a pretty sight, but far too often environmentalists are narrow-minded and emotional, putting animals before people and cultural patterns. The vicious campaign against the Faeroes' tradition of whale killing is deplorable and a typical example of cultural imperialism. To be considered civilized, is it really necessary to start eating hamburgers?

LARS BREDO RAHBEK.
Manila.

Shultz, Shevardnadze Agree to 4th Meeting On Daniloff Spy Affair

United Press International

NEW YORK — Secretary of State George P. Shultz and Eduard A. Shevardnadze, the Soviet foreign minister, agreed to meet Sunday amid reports that they were nearing a resolution of a crisis over spying charges against a U.S. journalist in Moscow.

Mr. Shultz arrived in New York from Washington to attend the second week of the United Nations General Assembly, and U.S. officials said that he planned to meet Mr. Shevardnadze on Sunday night.

The State Department refused comment on the meeting, which would be their fourth in New York since last Tuesday.

Officials traveling with Mr. Shultz indicated that the two countries could be reaching a breakthrough in the case of Nicholas Daniloff, but none would discuss what was on the agenda for the latest meeting.

Last week, with tensions escalating over the arrest of Mr. Daniloff, 51, a correspondent for U.S. News & World Report in Moscow, Mr. Shultz and Mr. Shevardnadze met three times to resolve the matter, cited by both sides as a key obstacle to second summit meeting between President Ronald Reagan and the Soviet leader, Mikhail S. Gorbachev.

Mr. Daniloff was arrested Aug. 30 by the KGB and charged a week later with espionage. The United States contends that his arrest was in retaliation for the apprehension by the United States on Aug. 23 in New York of Gennadi F. Zakharov, a Soviet official at the United Nations charged with spying.

On Sept. 12, Mr. Daniloff was turned over to the U.S. Embassy and Mr. Zakharov to Soviet authorities in New York. Neither man is free to leave, and both could still stand trial.

During their meetings last week, Mr. Shultz and Mr. Shevardnadze were said to have discussed a possible arrangement by which Mr. Daniloff would leave the Soviet Union, several Soviet dissidents would be granted exit visas and Mr. Zakharov would be allowed to return to the Soviet Union after trial.

Sources said that Mr. Shultz had rejected Soviet demands that any such deal include concessions by the United States on the expulsion of 25 staff members of the Soviet mission at the United Nations. The expulsions, consistent with an order issued earlier this year, were described by the Reagan administration as unrelated to the Daniloff case and instead as a response to Soviet use of the UN mission as a base for espionage.

■ Hammer Trip Disclosed

Armand Hammer, the American industrialist who has had contacts with the Soviet leadership since Lenin's time, visited Moscow last week to press for settlement of the crisis over spy charges against a U.S. journalist, The Associated Press reported in Los Angeles. It quoted a spokesman for Mr. Hammer's Occidental Petroleum Corp.

Mr. Hammer flew to Moscow on Monday after meeting with the Soviet ambassador to the United States, Yuri V. Dubinin, and Mr. Shevardnadze in New York, the Occidental official said Saturday.

Mr. Hammer was acting as a private citizen but kept the U.S. government informed, said Frank Ashley, Occidental's vice president for communications.

A State Department spokesman refused to comment on whether Mr. Hammer had been involved in the negotiations concerning Mr. Daniloff.

"In Moscow Tuesday afternoon and Wednesday morning, he stressed in meetings with high-level Soviet officials his belief that the Daniloff matter must be quickly resolved, reinforcing in person the communications he had sent earlier," Mr. Ashley said.

Mr. Ashley said he did not know whom Mr. Hammer met in Moscow. He would not elaborate.

Wolfgang Rattay/Reuters

At the Greens congress in Nuremberg, Antje Vollmer, left, opponent of an alliance with the Social Democrats, shares a basic posture with Joschka Fischer, who supports the idea.

GREENS: *Party Keeps Door Open to Coalition of Left*

(Continued from Page 1)

Greens," exploded Petra Kelly, one of their founders, "are running behind the SPD, the old mother party, saying, 'Please take us.' It's like political prostitution."

Addressing the delegates, Miss Kelly noted that Johannes Rau, the Social Democrats' standard bearer in the elections, spurned the idea of a coalition with the Greens at his party's congress in Nuremberg last month.

"Although Johannes Rau only mentioned the Greens once at Nuremberg, we are spending more time talking about the SPD than about the Greens!" exclaimed Miss Kelly to angry boos and whistles.

Dagmar Kampf, a delegate from Cologne, declared it "odd to have an election manifesto that starts out with a declaration of how we are going to go into a coalition."

It was the party's North Rhine-Westphalia chapter that put forward the winning motion. The state group last year experienced the perils of extremism, taking a drubbing in regional elections after some of its members called for the legalization of sex with children.

Many delegates recalled, moreover, that a fundamentalist-dominated congress in Hannover had led to a poor showing in a state election in Lower Saxony in June. So they shelved a motion urging that Greens attend a banned antinuclear demonstration in Munich on Oct. 4, eight days before state elections in Bavaria.

The most effective arguments for the Realo cause were marshaled by Joschka Fischer, 38, who is the Green environment minister in the party's experimental coalition with the Social Democrats in Hesse state. Mr. Fischer said he approved the Greens' goal of "getting out" immediately of atomic power. "But," he added emphatically, "that doesn't mean we can't work for a majority that would make getting out possible."

The Greens are concerned about securing the 5 percent of the popular vote needed for remaining in the Bundestag. Opinion polls show them at around 6 percent, but the three established parties seem determined to eliminate the upstarts from parliament.

JAPAN: *Nakasone's Racial Comment Initially Passed Almost Unnoticed*

(Continued from Page 1)

been a *favorable factor* in the spread of education and in the development of the economy."

The Japanese government is eager to preserve this purity, many analysts said, and uses strict immigration laws as a tool. Although Japan has been generous with money to support Indochinese refugees in third countries, for instance, it has resettled only about 4,700 of them here.

On a personal level, things can work in a similar way. Japanese who have lived overseas for extended periods are often vaguely distrusted by other Japanese when they return. Companies may refuse to hire them out of fear that they will not offer the requisite sacrifice and loyalty.

On an individual basis, the Japanese feel most comfortable with white Americans and Europeans, whom they see as possessing superior judgment in matters of taste and fashion.

But at the same time, white foreigners find Japanese reluctant to sit next to them on the subway. A few Japanese bars post signs outside barring foreigners' entry.

Black baseball players are cherished members of Japanese teams, and black musicians are slavishly interviewed on television. But on the housing market, blacks can run into the same problems they do in the United States. Some Tokyo landlords turn blacks away while accepting white foreigners.

Many Japanese are not much closer to the domestic minorities that make up only about 3 million of the population of 120 million. The largest group is the *burakumin*, or "village people," descendants of a feudal outcast class that assumed occupations that were considered unclean, such as leather tanning and slaughtering animals.

The burakumin number two million or more and remain in many of the old occupations. Government spending is helping to raise their standard of living, but ordinary Japanese avoid contact with them.

Racially the minority is no different. For that reason, a special class of private detectives exists for the purpose of investigating the backgrounds of potential in-laws.

Koreans, who number about 650,000 in Japan, emigrated there during Japan's colonial rule of their country from 1910 to 1945. They are viewed by many Japanese, particularly the older generation, as loud, ill-mannered and prone to crime.

Other groups are the Chinese, with about 50,000, and about 20,000 Ainu, all that are left of the aboriginal inhabitants of northern Japan.

Much is heard these days of Japan's "internationalizing." Formal trade barriers are coming down, more foreign restaurants are opening, and more English is spoken. In increasing numbers, Japanese are taking their vacations abroad.

In ancient times, island geography and deliberate isolationism encouraged the evolution of a distinctive Japanese identity. Technology, economics and calculated decisions have helped to keep that identity strong since the end of World War II.

National radio and television dilute regional accents, and the shuffling around the country of millions of company employees is breaking up regional loyalties. Education is centrally directed.

During the war, the Japanese were taught that their race had a divine mission to rule and bring prosperity to all of Asia. That thinking is largely gone, but many Japanese still feel that they are unique in the world, a tiny island community with no resources, where prosperity is possible only through unity.

"Deep down, we have a feeling that foreigners can never fully understand Japanese culture," said Hidekazu Kawai, a political science professor at Gakushuin University in Tokyo.

Still, there are signs of change. The burakumin have a "liberation movement" that stands up militantly when it feels that the rights of its members are at stake. In July, the first naturalized Korean was elected to the Diet, or parliament.

What criticism there has been of the substance of Mr. Nakasone's comments has come mainly from opposition parties.

Tsuruo Yamaguchi, secretary of the Japan Socialist Party, called the remarks "insulting and full of malice."

BEIRUT : *Army Repels Attackers*

(Continued from Page 1)

UNIFIL troops took up new positions in the south, moving from villages where suspected pro-Iranian gunmen have killed four Frenchmen since August.

■ Green Line Crossing

Nora Boustany of The Washington Post reported earlier from Beirut:

Saturday's fighting began at dawn when Syrian-backed Moslem and Christian militiamen, backed by tanks and troop carriers, crossed the dividing Green Line from West Beirut.

The attack appeared to be an attempt to reimpose the rule of Mr. Hobeika.

The Lebanese Forces accused Brigadier Kanaan of organizing the offensive with the help of the Shiite Moslem Amal movement. Amal and officials of the pro-Syrian Lebanese Ba'ath Party denied any involvement.

However, residents of neighborhoods on the Moslem side of the Green Line said they had seen local Moslem fighters escorting Hobeika loyalists through those areas.

Mr. Hobeika was removed on Jan. 15 by anti-Syrian Christian militiamen led by Mr. Geagea, then his chief of staff, and by followers of President Gemayel. The coup dealt a critical blow to a Syrian-engineered militia peace accord signed by Mr. Hobeika and Moslem militia leaders.

After five hours of house-to-house fighting on Saturday, the Lebanese Army joined the Lebanese Forces in repelling the attack. At noon, as street battles raged, jets swooped low over the city dropping tear gas, apparently to disorient the attackers.

The timing of the offensive followed successful efforts at dialogue and reconciliation between Christian and Moslem ministers. It also coincided with forecasts of a possible summit between Mr. Gemayel and his Syrian counterpart, Hafez al-Assad.

Escape Bid Fails in Berlin

The Associated Press

BERLIN — East German frontier guards arrested a man trying to climb over border barriers to reach West Berlin, the police there said Sunday. They said the man had nearly cleared a metal fence on the eastern side of the Wall when he was arrested Saturday night.

SITE: *Test Shafts Shown*

(Continued from page 1)

and there were power lines on the other side.

General Ilyenko, who has served as the test zone commander for six years, declined to say how long the tunnel was. "The length of the tunnel depends on the strength of the charge," he said. "We only use it once."

When preparations were under way for testing in the past, General Ilyenko said, such a site would hum day and night with the roar of bulldozers, the hammering of drills and the buzz of generators.

Underground nuclear testing is the only kind permitted under a treaty signed by the Soviet Union and the United States in 1963. In announcing the moratorium on underground tests on Aug. 6, 1985, the Soviet leader, Mikhail S. Gorbachev, invited Washington to follow suit.

The Reagan administration declined, saying that it must maintain the efficiency of existing weapons.

In August, Mr. Gorbachev extended the Soviet moratorium until Jan. 1, 1987.

The visitors to the Soviet testing site flew Friday from Moscow to Semipalatinsk, in the northeast corner of Kazakhstan, about 370 miles from the Soviet border with Mongolia and China.

NYT

At Semipalatinsk they transferred to a small Antonov-26 Air Force transport and flew for an hour to a town, unmarked on Soviet maps, on the banks of the Irtysh River. General Ilyenko said that the town, the garrison for the test area, was known simply as Voyenny Gorodok, or "Military Settlement."

From there, the group traveled westward on Mi-6 military helicopters, flying low for an hour over salt lakes and herds of cattle, goats and horses. After landing at the forward garrison site for the test grounds in the foothills of the Gegelen range, the group traveled seven miles over rutted dirt roads.

General Ilyenko said he could not accept U.S. arguments that there was no fully reliable way of detecting nuclear blasts. "The Soviet-U.S. observer group shows that," he said.

Since July, two American scientific observers and a team from the Soviet Academy of Sciences have been setting up three monitoring stations around the Semipalatinsk site under a private agreement.

The group flew by helicopter to visit the American team at a station that it has established near the east Kazakstan town of Karakalinsk.

"There has been absolutely no sign of activity on the Soviet site since we've been here," said David Chavez, a 30-year-old seismologist from the University of Nevada at Reno. "There is no doubt whatsoever that we would know if there had been."

But if a full inspection system were to be set up, he said, "I think there would have to be monitoring stations in the area of all possible testing sites in both countries."

Inmate Who Fled by Air Is Shot at Paris Bank

The Associated Press

PARIS — A prisoner who made a spectacular escape by helicopter from a penitentiary here in May was wounded and captured in a shoot-out while trying to rob a bank in eastern Paris, the police said.

Michel Vanjour, 35, who had been serving an 18-year sentence at La Santé prison for armed robbery and the attempted murder of a policeman, was shot in the head Friday. His wife, Nadine Bourgam, who piloted the helicopter in the May 26 escape, was arrested Saturday in southwestern France, the police said.

TAX: *Reagan to Sign*

(Continued from page 1)

talking about restoring some tax breaks.

"If I thought we would have to live with this tax bill for the next 10 years with no changes, I would vote against it," said Senator Tom Harkin, Democrat of Iowa. "But we all know, we talk about it in the corridors, that it will be changed."

But Mr. Packwood said that he and the House Ways and Means Committee chairman, Dan Rostenkowski, Democrat of Illinois, had agreed to fight "tooth and nail" against significant changes.

Eleven Republicans and 12 Democrats voted against the tax plan, while 41 Republicans and 33 Democrats voted for the bill. Three senators did not vote.

The congressional Joint Committee on Taxation calculates that, under the bill, 76.3 million Americans would pay less in taxes, while 20.4 million households, including 10.5 million with annual income below $30,000, would pay more.

Senator Howard M. Metzenbaum, Democrat of Ohio, noted that the legislation included $10.6 billion worth of special "transition rules," exemptions for specific companies and projects. There are no transition rules for ordinary people, he said.

■ Bill Is Criticized

Though most economists predict the tax changes would improve long-term economic growth, some critics say it would slow growth and hurt the chances for balancing the federal budget, the Los Angeles Times reported from Washington.

"For our economy, this is the wrong bill at the wrong time," said Senator Carl M. Levin, Democrat of Michigan. He warned that the passage of the bill was "setting the stage for making deficit reduction more difficult and less fair."

Official estimates are that the bill will neither ease nor worsen the federal deficit over a five-year period, but it will cause huge swings in individual years.

■ Officials Are Split

Economic officials of present and past administrations were split in their analyses of the bill, The Associated Press reported.

"As the special interests have been unable to retain their special preferences and deductions and so forth, they've moved to this argument that this is going to mean the end of Western civilization as we know it," said Treasury Secretary James A. Baker 3d. "Let me tell you something — it is not."

Murray Weidenbaum, a former chairman of Mr. Reagan's Council of Economic Advisers, was sharply critical of the bill. "On balance," he said, "by reducing the incentives for business expansion, we're going to see fewer new jobs created, a weaker economy, less revenues into the Treasury, more unemployment compensation and bigger budget deficits.

"It may be good politics, but I think it's bad economics," he said on a television interview show.

Highlights of Tax Legislation

	Current Law	Bill Passed By Congress
Individual Tax Rates		
Rates on income	14 rate brackets from 11% to 50%	For 1987, five brackets from 11% to 38.5%; after that, two rate brackets: 15%, 28%
Capital gains	60% of long-term gains excluded from taxation, resulting in a top rate for individuals of 20%	Preferential treatment ended; gains to be taxed at top individual rate of 28% beginning 1987
Exemptions		
Self, spouse, dependents	$1,080	1987: $1,900 1988: $1,950 1989: $2,000 (Phased out for highest income brackets)
Standard Deductions		
Single returns	$2,480	1987: $2,540 1988: $3,000
Joint returns	$3,670	1987: $3,760 1988: $5,000
Heads of households	$2,480	1987: $2,540 1988: $4,400
Personal Deductions		
Mortgage interest	Fully deductible	Deductible for first and second homes, others taxed
Other personal interest	Deductible	Not deductible after a four-year phase-out
Medical expenses	Deductible above 5% of adjusted gross income	Deductible above 7.5% of adjusted gross income
Charitable contributions	Deductible	Deductible only for those who itemize
State and local income taxes	Deductible	Deductible
Other state and local taxes	Deductible	Property taxes deductible; sales taxes not deductible
Other Individual Items		
Unemployment compensation	Taxed if adjusted gross income is more than $12,000 ($18,000 if married)	Taxed
Workers' compensation	Not taxed	Not Taxed
Entertainment expenses	Deductible	80% deductible
Business meals	Deductible	80% deductible
Income shifting to children through trusts	Permitted	Curtailed
Retirement		
Individual Retirement Accounts	$2,000 tax-deferred contribution is permitted each year	Restricted for some individuals covered by employer pension plans
401(K) plans	Annual tax-deferred contribution up to $30,000	Annual tax-deferred contribution limited to $7,000
Capital and Business Taxes		
Corporate tax rates	Graduated up to 46%	For 1987, top rate is 40%; after that, graduated up to 34%
Investment Tax Credit	6% to 10%	Repealed retroactive to Jan. 1, 1986
Municipal Bonds		
Public purpose	Tax-exempt	Tax-exempt as long as 10% or less of issue is for private users
Private purpose	Tax-exempt	Certain bonds issued after Aug. 7, 1986, subject to individual "minimum" tax

Source: Treasury Department; Joint Committee on Taxation

The New York Times

EFFECT: *U.S. Tax Law to Change Decades-Old Habits*

(Continued from Page 1)

traditional tax-shelter schemes, which can no longer be used to protect their other income.

Individual Retirement Accounts, a staple of family investment portfolios, will lose their allure to millions of taxpayers who will no longer be able to deduct from their taxable income the amounts they put in such accounts.

Real estate will lose some of its luster. Wealthy individuals will no longer be able to write off more in expenses than they earned from rents on their property.

Low-risk and high-yield investments such as bank accounts, money market funds, bonds and stocks that pay high dividends are likely to be looked on in a more favorable light. Their after-tax return will be enhanced by the drop in individual tax rates.

A financial revolution is expected as bankers and brokers rush to create products and services that are more in tune with the new tax climate. Promoters of tax shelters have already started offering deals that focus on generating income rather than tax losses.

Banks are already promoting loans on homeowners' equity in their property to finance all sorts of consumer purchases. With the deduction for interest on consumer loans repealed, banks are counting on customers to turn instead to home-equity loans because the interest on them will still be deductible within limits.

Deductions for mortgage interest on first and second homes would be allowed for the original purchase price of the home and the cost of improvements, plus amounts borrowed against the home for educational and medical expenses.

Beginning Jan. 1, investors are likely to hear from their stockbrokers more often. Since investors will no longer get a tax break for waiting six months before selling stock, they will no longer have a tax reason for holding onto their shares.

The extensive changes approved by Congress in the taxation of businesses promise to profoundly affect where resources flow and where jobs are created and lost. Fewer mergers, takeovers and corporate raids may result from various tax changes intended to discourage such activity.

Sweeping changes in the rules governing pensions and other employee benefits will have widespread implications.

For the first time, *millions* of lower- and middle-income workers who change jobs frequently will end up with the right to pensions. Instead of having to work 10 years to earn rights to a pension, most workers will be entitled to benefits after only five years.

Many of these same workers will also find themselves newly covered by fringe benefits and pension plans because of tough new rules preventing employers from offering tax-free benefits to highly paid executives while ignoring lower-paid workers.

The lower tax rates may also influence how much people work. Under the new law, Americans will get to keep more of each additional dollar earned than they have in more than a half century.

VETO: *Override Likely*

(Continued from Page 1)

message to a lengthy critique of the new sanctions approved by Congress and an appeal to its members to work with him on other measures that he said would "manifest the American people's united opposition to apartheid — without injuring its victims."

The congressional sanctions would ban U.S. investment and bank loans, terminate landing rights in this country for South African aircraft and prohibit U.S. imports of South African uranium, coal, steel, textiles, military vehicles and agricultural products.

Mr. Reagan asked, "Are we truly helping the black people of South Africa — the lifelong victims of apartheid — when we throw them out of work and leave them and their families jobless and hungry in those segregated townships? Or are we simply assuming a moral posture at the expense of the people in whose name we presume to act?"

Mr. Reagan said the sanctions approved by Congress would also "deliver a devastating blow" to neighboring states in southern Africa, and he objected to a feature of the legislation that seeks to restrict U.S. military assistance to nations that do not join the U.S. sanctions.

The president also warned that the Soviet bloc "clearly sees a historic opportunity" in southern Africa and has a "mounting investment of men and arms" there that the United States will not be able to deal with if sanctions are imposed.

3 Sri Lankan Troops Killed

The Associated Press

COLOMBO, Sri Lanka — Three Sri Lankan soldiers were killed Sunday when a land mine they were trying to defuse exploded in the northern port of Trincomalee.

Soviet Shipping Official Removed After Sinking

Reuters

MOSCOW — The official in charge of the Soviet merchant marine has been removed following the Aug. 21 sinking of a Soviet liner in the Black Sea in which nearly 400 people died, the news agency Tass said Sunday.

The agency said that Timofei Guzhenko, 68, who had run the ministry since January 1970, had retired on a pension.

In Poland,

Along With Amnesty

Kinnock Rebuffs U.S. On N-Arms

Morocco Said

هكذا من الأصل

In Poland, Conflicting Signals

Along With Amnesty, a Call for Detention of Dissenters

By Michael T. Kaufman
New York Times Service

WARSAW — While General Wojciech Jaruzelski has welcomed recently released political prisoners to what he called "responsible" public life, the Polish Communist Party has called for the administrative detention, without trial, of dissidents deemed harmful by the authorities.

These somewhat contradictory signals reflect a desire to navigate policy through the conflicting concerns of the authorities, supporters of Solidarity, the Roman Catholic Church, Western creditors and the Warsaw Pact allies.

When the government announced Sept. 11 that it would free the opposition figures who remained in prison, the move was applauded by Pope John Paul II and Western governments. But at a briefing for Soviet-bloc diplomats on the amnesty, aggressive questions were asked — some said notably by the Czechoslovaks and the East Germans — about whether Poland was about to countenance a de facto opposition.

In addition, some Polish security officials were reportedly disheartened by the release of people whose capture, interrogation and persecution had taken so much of their time and effort.

Party sources said those opposing the amnesty had been placated a little by an unpublicized directive recommending that dissidents no longer be held for full-fledged trials that would attract world attention.

Instead, the party says, they should be processed in half-hour administrative hearings on misdemeanor charges. This was the practice in the 1970s, when defendants often received a sequence of short sentences, sometimes adding up to years in jail.

Generally, government officials have tried to offset declarations of a new beginning and renewed chances of dialogue with assertions of continuing vigilance and retention of decision-making power in party hands.

The Associated Press

Zbigniew Bujak, the former underground leader of Solidarity, thanking Cardinal Jozef Glemp at St. Martin's Church in Warsaw for the efforts of the church to aid political prisoners. Mr. Bujak was released from prison Sept. 8.

The message is that freer discussion will be tolerated but that there will be no return to the days before 1981 when a government buffeted by strikes accepted independent labor unions.

The twin approach was evident in a speech General Jaruzelski, the Polish leader, made recently in Ziełona Gora.

"No one in our country will be discriminated against for his or her convictions," he said. "Every citizen's voice should be heard, regardless of its source, if it is accompanied by a patriotic intention, a feeling of responsibility and respect for constitutional principles."

Such statements appeared to be intended as positive responses to recent appeals by the church for greater tolerance and for guarantees of pluralism and rights of free association.

But General Jaruzelski also made clear that there were limits. He said:

"The foes of our political system understand the word 'pluralism' as a cover for essentially illegal activities that are anti-socialist and destructive. Such efforts have no chance of success.

"Enough of hide and seek. Whoever wants to abuse the generosity of the act of amnesty and form some adventurist anti-state groups that might seek another round of anarchy must be aware that the law is not as flexible as rubber."

Bonn Foils Plan to Rush Refugees into West Berlin

Reuters

BONN — West Germany appears to have thwarted an attempt to rush 27,000 Third World refugees into West Berlin on a route through Eastern Europe, the Foreign Ministry said Sunday.

A spokesman said the plan had involved ferrying 600 bus loads of asylum-seekers, mostly Iranians, from Turkey to Bulgaria and from there to West Berlin.

Bulgarian and Polish diplomats in Bonn were called to the Foreign Ministry on Saturday and asked to help stem the flow in the interests of good relations, the spokesman said.

Bulgarian authorities told authorities in Bonn later Saturday that the first bus loads had been turned back at the Turkish frontier and that refugees would not be allowed to cross Bulgarian territory unless they had valid West German entry visas, he said.

Sources said the plan was aimed at bringing the refugees into West Berlin before Wednesday, when East Germany will stop issuing transit visas to refugees without entry permits for their final destinations.

They said the refugees were to have been driven by bus to Sofia to catch special airline flights to East Berlin or Warsaw, from where they would have taken trains to the West.

More than half the 77,000 refugees who have sought political asylum in West Germany this year have flown first to East Berlin's Schönefeld airport with East German transit visas and have then crossed through the Berlin Wall.

After pressure from Bonn, East Germany announced Sept. 18 that it would stop issuing the transit visas starting next Wednesday unless refugees had entry permits for their final destinations.

Kinnock Rebuffs U.S. On N-Arms

Reuters

BLACKPOOL, England — Neil Kinnock, the British Labor Party leader, has rejected U.S. criticism of his plan to scrap nuclear weapons and close U.S. nuclear bases.

Labor delegates, encouraged by opinion polls giving the party a 6.5-percentage-point lead over both the Conservative Party and the centrist coalition of the Liberal and Social Democratic parties, gathered Sunday for a week-long annual conference.

Nuclear arms and nuclear energy were expected to be major issues.

Upon his arrival in Blackpool, in northwestern England, on Saturday, Mr. Kinnock made it clear that he would not modify the party's policy of nuclear disarmament despite criticism from Washington.

"If we ask for American missiles to leave, then leave they will," he said. "Another country cannot interfere with the life of a democratically elected government."

He was responding to remarks made by the U.S. secretary of defense, Caspar W. Weinberger, and by Richard N. Perle, the U.S. assistant secretary for international security policy, that Labor's policy would undermine NATO.

There is likely to be heated debate in Blackpool over nuclear energy, on which the party is split three ways. While the leadership favors phasing out nuclear power but says it could take decades, left-wing members are calling for a shutdown within five years.

In the middle is a group of trade unions representing the 100,000 workers in the nuclear power industry, which provides nearly 20 percent of Britain's electricity. They are calling for a freeze on new nuclear plants pending a study.

In a television interview Mr. Kinnock indicated Sunday that he did not believe that the remarks of Mr. Weinberger and Mr. Perle were representative of the views of the U.S. administration.

The Liberal Party repudiated the position of its leader, David Steel, at its annual conference last week, deciding against retaining an independent British nuclear deterrent. The action caused a split with the Liberals' Social Democratic partners in the centrist alliance.

East Germany Said to Step Up Guard On West's Envoys and Watch Libyans

By Robert J. McCartney
Washington Post Service

BERLIN — East Germany has increased the protection it provides to U.S. and other diplomats in East Berlin and reportedly has increased monitoring of the Libyan embassy there in an apparent effort to prevent terrorist incidents, according to Western diplomats.

East Germany's Communist authorities took the steps, probably with Soviet backing, after the Libyan embassy in East Berlin was linked to the terrorist bombing on April 5 of a discotheque in West Berlin that killed two persons and injured more than 200, the diplomats said last week. U.S. warplanes bombed Libya in retaliation for the nightclub attack.

The East Germans were embarrassed by the publicity over the discotheque bombing, especially because they are preparing for Berlin's 750th anniversary next year, according to U.S. officials in Bonn and Western diplomats in Berlin.

The new security measures, and the serious response of East German and Soviet officials when the terrorism issue is raised, suggest that the two countries are showing increased interest in preventing terrorism in this divided city, the diplomats said.

"The East Germans and the Soviets seem to be taking the whole terrorism thing very seriously," a senior Western official here said.

"They want to improve their image," he said. "They certainly don't want East Berlin to be seen as a center of terrorism."

East Berlin police have set up checkpoints to control traffic on several streets in neighborhoods where many foreign diplomats have their homes. A senior U.S. Embassy official now has a 24-hour police guard outside his house; previously, a police car passed occasionally.

In a related development, West Berlin police have begun stopping Libyan and some other Middle Eastern diplomats shortly after they enter West Berlin, the Western diplomats said. The incoming Middle Eastern diplomats are questioned and warned that they "aren't wanted" in West Berlin, the sources said.

In most cases, the diplomats then return to East Berlin.

These new steps, adopted in the spring, mark the first time that the United States, Britain and France have allowed ongoing controls over persons entering the city's western sector. The Western allies, who have been responsible for West Berlin since the end of World War II, previously have been adamant in maintaining West Berlin's status as an open city.

West Berlin's police chief, Manfred Ganschow, said Friday that the new regulations governing Libyans and other unidentified diplomats constituted "a kind of border control" for West Berlin for the first time.

But Western diplomats said the regulations technically were not border controls, as the Libyans and others were not actually barred from entering the western sector.

Berlin is a haven for government-backed extremists because of embassies in East Berlin and easy access to West Berlin. In March and April, both the Libyan and Syrian embassies in East Berlin were implicated in terrorist attacks in West Berlin.

First, the United States made public information obtained by electronic eavesdropping that suggested strongly that the Libyan embassy was aware of plans for the discotheque bombing.

In addition, two Arabs who confessed to bombing the German-Arab Friendship Society in West Berlin on March 29 said in police interrogations that they obtained the explosives from the Syrian Embassy in East Berlin.

Mr. Ganschow said he believed the accounts by two Jordanians, Ahmed Nawaf Mansour Hasi and Farouk Salameh, of where they obtained the explosives. The two are expected to go on trial in October or November, and face prison terms of as long as 15 years.

"They didn't speak together after they were arrested, yet both guys told us the same facts, even in the small details," Mr. Ganschow said.

U.K. Links Libyan Airline To Terror, May Ban Flights

The Associated Press

LONDON — Britain says that Libyan Arab Airlines is implicated in terrorist-related activity and that it will consider banning flights by the state-owned airline.

The British announcement followed Friday's conviction of a Palestinian doctor on charges of receiving four grenades, which the court was told had been picked up at London's Heathrow Airport from a man wearing a Libyan Arab Airlines uniform. Prosecutors said the grenades were to be used in terrorist attacks in Britain.

The police and security services were reported Saturday by the British news media to be on heightened alert for terrorist reprisals following the sentencing of Rasmi Awad, 43, who has dual Jordanian-Spanish nationality, to 25 years in prison.

A Foreign Office statement said: "The government is gravely concerned that this case clearly implicates Libyan Arab Airlines in terrorist-related activity."

A Foreign Office spokesman said a possible ban on flights to Britain by the airline was one possibility. Prime Minister Margaret Thatcher's cabinet is expected to discuss the issue at its next meeting.

The Foreign Office said security had been stepped up immediately after the arrest of Mr. Awad and Nassar Mohammed, a Palestinian student, on Sept. 22, 1985.

Mr. Mohammed, 28, an Iraqi-born Jordanian, was acquitted Friday but detained by the Home Office, which said he would be deported for reasons of national security.

The Press Association, Britain's domestic news agency, said government officials had emphasized that any ban on Libyan Arab Airlines should not be seen as part of a wider effort to isolate Libya but as a British reaction to a terrorist threat.

Britain broke relations with Libya in April 1984 after a London police officer, Yvonne Fletcher, was fatally shot during a Libyan dissident demonstration. Britain charged that she had been killed by a Libyan shooting from inside the Libyan Embassy.

Morocco Said to Seize 4 in Plot to Bomb Synagogue

By Stephen Engelberg
New York Times Service

WASHINGTON — Morocco recently arrested a team of Palestinians who were preparing to bomb a synagogue in Casablanca on the Jewish New Year next weekend, according to U.S. officials.

The officials said neither the affiliations nor the goals of the team were known. They cautioned against linking the incident with any of a recent series of terrorist attacks against Jewish or Western targets.

"We don't know how this fits in, or whether it fits in at all," an administration official said.

Moroccan security forces have been on alert since July, when King Hassan II met Prime Minister Shimon Peres of Israel in Morocco. In August, the Moroccan government arrested four Arabs — a Palestinian, two Tunisians and a Lebanese Palestinian — on terrorism charges.

Details about the arrests were sketchy. According to administration officials, the Palestinians were carrying explosives and a plan for one of the synagogues in Casablanca.

Officials said it appeared that the assault was being planned for Saturday, when members of the congregation would have gathered to celebrate Rosh Hashanah, the Jewish New Year and one of the holiest days on the Jewish calendar.

Ahmed Bourzaim, a counselor at the Moroccan Embassy in Washington, said he was not aware of the arrests. He said, however, that his country had been bracing for possible terrorist attacks since Hassan and Mr. Peres met.

Morocco has begun demanding that visitors from some Arab countries obtain visas before they arrive. "We are trying to protect ourselves as best we can," Mr. Bourzaim said.

There has been open talk in the Arab world of reprisals against Hassan for taking part in any talks with the Israelis. The Syrian daily al-Baath, for example, warned that the king would be punished for his actions.

Mr. Bourzaim said 15,000 to 20,000 Jews live in Morocco, most of them in Casablanca, a city of three million people. Although many Moroccan Jews have emigrated to Israel, the country's Jewish population is nonetheless viewed as the largest and most influential in the Arab world.

The planned attack against the synagogue comes less than a month after two gunmen attacked a synagogue in Istanbul with machine guns and grenades during a Sabbath service.

Administration officials said the attack on Sept. 6, which left 21 worshipers and two gunmen dead, had been carefully planned. American officials said there were indications that the operation was carried out by forces linked to Abu Nidal, a Palestinian who broke away from Yasser Arafat, chairman of the Palestine Liberation Organization.

Neil C. Livingstone, president of the Institute on Terrorism and Sub-National Conflict, said the Istanbul attack suggested a trend toward terrorism against unguarded targets such as synagogues.

"The bad guys are going after soft targets," he said. "A synagogue is a soft target. You can't turn it into an armed camp, particularly in an Arab country."

Weekly International Bond Prices

Provided by Credit Suisse First Boston Securities, London. Tel.: 01-623-1277.
Prices may vary according to market conditions and other factors.

RECENT ISSUES

Sept. 25

Amt		Security	%	Mat	Str/Conv	Issue Price	Mid Price	Yield
Y	20000	Sweden	5⅛	'95 Sep	s	101½	98¼	5.88
dm	100	Asian Develop Bank	6⅛	'96 Sep	s	99½	98½	6.33
dm	200	Citicorp	6⅝	'96 Oct	s	100	99	6.51
$	150	Long-Term Credit Bank	8	'96 Sep	s	101½	97	8.46
Y	40000	Austria	5⅝	'96 Sep	s	101½	98¾	5.86
ecu	75	Merrill Lynch Co Inc	7	'90 Dec	s	100¾	97	7.85
$	100	Hessische Landesbank	8	'96 Sep	s	101¼	98¼	8.26
$	100	Amro Bank W/w	3½	'96 Sep	s	100	101½	3.32
Y	50000	Nippon Telegra Teleph	5⅝	'96 Sep	s	101¼	100¾	5.84
$	200	Inter-American Dev Bk	7⅝	'96 Sep	s	100½	96⅝	8.11
$	250	British Telecom Finan	7⅝	'96 Sep	s	100½	96	8.23
$	200	Citicorp	8⅛	'93 Sep	s	100	98	8.64
$	150	Lockheed Corporation	7¼	'89 Sep	s	100¾	99⅛	7.59
ecu	200	Electricite France	7⅛	'98 Aug	s	99	96⅛	7.63
$	200	New Zealand	7¼	'89 Sep	s	100½	99½	7.44
$	200	New Zealand	7½	'91 Sep	s	100	98¾	7.94
$	200	General Motors Accept	7⅞	'91 Sep	s	101¼	98¾	8.10
$	500	Denmark	7	'89 Sep	s	100¼	97	7.39
$	100	Philip Morris Co Inc	7⅝	'96 Aug	s	101⅝	97½	7.77
dm	100	Austrian Control Bank	6	'96 Sep	s	100	97⅝	6.31
$	100	Banque Franc Com Ext	7⅞	'96 Sep	s	100	96¾	8.37
Y	20000	Morgan Jp Co Inc	6	'94 Feb	s	101⅝	99⅞	6.38
Y	25000	Sweden	5½	'91 Aug	s	101	99⅝	5.53
Y	10000	Bayerische Vereinsbk	5⅝	'91 Aug	s	101½	100¼	5.81
$	100	Newmont Mining 10.95	7	'00 Nov	c	100	118	5.97
Y	50000	World Bank	5⅝	'96 Aug	s	100½	99	5.88
$	500	Norway	7¼	'91 Aug	s	101½	99½	7.37
ecu	100	Finnish …	7⅞	'96 Jul	s	100	[illegible]	7.76
[illegible]		[illegible]						

STRAIGHT BONDS

All Currencies Except DM

Amt		Security	%	Mat	Middle Price	Yield Avg Life	Yield Curr
[illegible]							

AUSTRALIA · AUSTRIA · BELGIUM · CANADA · DENMARK · FINLAND · FRANCE · GERMANY · ICELAND · IRELAND · ITALY · JAPAN · MEXICO · NETHERLANDS · NEW ZEALAND · NORWAY · SOUTH AFRICA · SPAIN · SUPRANATIONAL · SWEDEN · SWITZERLAND · UNITED KINGDOM · UNITED STATES AMERICA [tables illegible]

FOREIGN TARGETED BONDS OF THE US TREASURY AND OF ITS AGENCIES [table illegible]

—HIGHEST YIELDS—

to Average Life Below 5 Years

	Amt	Security	%	Mat	Middle Price	Yield Mat	Yield Avg Life	Yield Curr
$	15	Ward Foods O/s Capita	6¾	'88 Nov	79½	18.33	20.38	7.23
$	40	Mexico	8½	'87 Mar	97½	13.95	14.94	8.72
$	25	South Africa	7¾	'87 Dec	94	13.30	13.73	8.24
$	125	Pemex Petroleos Mexic	11½	'88 Jul	97½	13.09	13.42	11.79
$	65	Esc Europ Econom Com	14⅝	'93 Apr	109½	13.36	12.32	13.35
$	50	Anglo American Corp	7⅛	'87 Mar	98	12.22	12.27	7.65
$	14	Reliance Transcontin	6⅛	'88 Feb	93⅝	11.59	11.66	6.68
$	40	Trailer Train Finance	13¼	'92 Nov	106	11.89	11.28	12.50
$	75	Sect Nat Chemins Fer	15	'91 Feb	104½	11.58	11.67	12.44
$	100	Basf Transatlantica	7⅛	'87 May	91⅝	23.41	23.49	8.79
nkr	100	Norges Hypotekforenin	10⅝	'88 Apr	98⅝	11.78	12.46	10.78
£	50	Esc Europ Econom Com	11⅞	'91 Feb	99⅝	11.94	11.59	11.92
£	18	Rowntree Mackintosh	10¼	'88 Feb	98¼	11.57	11.78	10.43
£	15	Eib Europ Invest Bank	12	'91 Jul	102⅝	11.27	11.21	11.71

—HIGHEST YIELDS—

to Average Life Above 5 Years

	Amt	Security	%	Mat	Middle Price	Yield Mat	Yield Avg Life	Yield Curr
$	50	Dome Petroleum	10	'94 Jul	30	41.17	45.88	33.33
$	75	Caisse Nat Autoroutes	15⅝	'97 Mar	117¼	12.76	11.49	13.54
$	50	Ingersoll-Rand Intl	13¼	'95 Oct	107	11.94	11.57	12.38
$	75	Intl Standard Electri	12	'96 Mar	106	10.93	10.56	11.32
$	40	Ottawa-Carleton	14⅝	'97 Jun	117¼	11.89	10.54	12.88
$	150	Quebec Province	12¾	'94 Feb	115½	10.23	10.09	11.09
$	102	Middletown Trust	10⅝	'96 Jul	104⅛	9.91	9.82	10.21
$	44	Phoenix Mutual Nat	10⅝	'96 Sep	105⅝	9.70	9.57	10.09
$	100	Equitable-Lord Realty	10⅛	'97 Dec	107	9.45	9.43	9.81
can	50	Canadian Utilities	17	'96 Dec	120	13.28	12.43	14.17
£	30	Indust Bank Japan Fin	11⅝	'95 Dec	103⅝	11.16	10.98	11.34
can	40	Royal Bank Of Canada	10	'94 May	99¼	10.12	10.14	10.08
ecu	40	Industrial Bk Finland	9	'95 Oct	103	8.51	8.42	8.74
ecu	65	Girnz Bank Sparkassen	10½	'95 Dec	111½	9.30	9.19	9.42

—HIGHEST CURRENT YIELDS—

	Amt	Security	%	Mat	Middle Price	Yield Mat	Yield Avg Life	Yield Curr
$	50	Dome Petroleum	13⅝	'92 May	30	52.58		45.83
$	50	Dome Petroleum	10	'94 Jul	30	40.19	45.88	33.33
$	75	Pemex Petroleos Mexic	17½	'86 Nov	100½	11.42		17.41
$	40	Gulf States O/s Finan	17½	'88 Oct	102	14.91		17.16
$	125	Mexico	18⅛	'97 Jul	105	16.83		17.14
$	75	Getalar	17¼	'89 Oct	102¼	14.47		17.11
$	75	Ohio Edison Finance	17½	'88 Oct	102⅝	14.89		17.11
$	75	Ohio Edison Finance	17¼	'87 Jul	105	9.95		16.43
$	40	Reynolds Metals Euros	16⅞	'87 Mar	102¼	9.28		15.98
can	50	Nacional Financiera	17⅛	'87 Mar	97	22.66		18.30
can	60	Hudsons Bay	18	'87 Nov	100½	17.32		17.91
can	50	Quebec Province	18	'87 Oct	101¼	14.53		17.78
can	100	Feder Business Dev Bk	17⅝	'86 Oct	100¼	9.14		17.58
can	40	Canadian Pacific	17⅝	'87 Nov	101	14.54		17.57

	Amt	Security	%	Mat	Middle Price	Yield Mat	Yield Avg Life	Yield Curr
[illegible]								

DM STRAIGHT BONDS

AUSTRALIA · AUSTRIA · BELGIUM · CANADA · CHINA · DENMARK · FINLAND · GERMANY · HUNGARY · ICELAND · INDIA · IRELAND · ITALY · JAPAN · LUXEMBOURG · MEXICO · MISCELLANEOUS · NETHERLANDS · NEW ZEALAND · NORWAY · PORTUGAL [tables illegible]

FRANCE

	Amt	Security	%	Mat	Middle Price	Yield Mat	Yield Avg Life	Yield Curr
dm	80	Aeroport De Paris	8⅛	'92 Dec	105⅝	7.07	6.89	7.80
dm	200	Banque Exter D'algeri	6¼	'92 Jul	97¾	7.23		6.91
dm	100	Banque Franc Com Ext	7	'87 Feb	100¼	4.12	4.12	6.98
dm	150	Banque Franc Com Ext	9¼	'88 Jan	106⅛	5.52	5.46	8.74
dm	100	Banque Franc Com Ext	9¼	'89 Aug	109⅝	5.55		8.45
dm	150	Banque Franc Com Ext	8¼	'90 Jul	108⅞	5.56		7.59
dm	200	Banque Franc Com Ext	8⅛	'94 Sep	109⅞	6.54		7.42
dm	100	Banque Franc Com Ext	8⅛	'93 Jan	102⅞	7.63	7.38	7.90
dm	200	Banque Franc Com Ext	6½	'95 Oct	101⅛	6.38		6.40
dm	100	Banque Indosuez	7¾	'90 Mar	105⅝	5.84		7.33
dm	100	Banque Nationale Paris	7¾	'90 Mar	105⅝	5.86		7.33
dm	150	Bfcs	6⅛	'96 Apr	94¼	6.89		6.45
dm	100	Caisse Centr Coop Eco	7	'89 Apr	101⅛	6.48	6.39	6.92
dm	100	Caisse Nat Autoroutes	8⅛	'94 Aug	109	6.68		7.45
dm	100	Caisse Nat Energie	8	'93 Jan	109¼	6.17		7.32

SOUTH AFRICA

	Amt	Security	%	Mat	Middle Price	Yield Mat	Yield Avg Life	Yield Curr
dm	200	South Africa	8½	'91 Dec	99⅝	8.64		8.55
dm	250	South Africa	7¾	'92 Dec	93⅛	8.93		8.32
dm	100	Escom Electr Supply	6⅛	'87 Sep	102	3.55	2.93	6.37
dm	100	Escom Electr Supply	9¾	'87 Nov	102¼	7.63		9.55
dm	100	Escom Electr Supply	7	'88 May	102¼	5.47	4.86	6.85
dm	150	Escom Electr Supply	8½	'90 Apr	97	9.51		8.76
dm	100	Escom Electr Supply	9½	'90 Jun	101⅝	8.89		9.34
dm	150	Escom Electr Supply	8	'92 Apr	94⅝	9.20		8.45
dm	200	Escom Electr Supply	8¼	'92 Sep	94⅝	9.50		8.72
dm	200	Escom Electr Supply	8¼	'93 Apr	92¼	9.56		8.94
dm	100	Iscor Iron Steel	7	'87 Apr	100	6.88	4.88	7.00
dm	100	Iscor Iron Steel	7	'88 Mar	98½	8.15	8.13	7.11
dm	100	Iscor Iron Steel	9	'88 Mar	100⅝	8.34		8.92

(Continued on Page 14)

ZERO-COUPON BONDS

Sept. 25

Security	Final Maturity	Original Offering Amt	Year	Price	Offered Price
[illegible]					

International Herald Tribune Special Financial Report Monday, September 29, 1986

Arab Banking

Gulf Banks Reflect Impact of Slowdown

By Olfat Tobamy

CAIRO — A new wave of negative growth is spreading from the Gulf region into neighboring countries and weighing heavily on the banking sector's performance.

Pressure is mounting on authorities responsible for maintaining the standards of the financial institutions' performance to prevent the rapidly deteriorating economic conditions from affecting the banks.

The banks suffered their first blows three years ago when the boom in the Gulf began to wane. The ensuing adjustment entailed cuts in public expenditures, which had fueled the banking sector's spectacular growth.

As the slowdown continued, opportunities for banking activities in project and trade financing narrowed, while banks and entrepreneurs faced the consequences of delays in government payment. This eventually led to a series of defaulting scandals.

The world oil crisis, with the sharp fall in prices in the first half of this year, sharply affected the Gulf states' economies, which are contracting rapidly.

The dramatic acceleration of these negative trends has had an immediate impact on the region's banks, as reflected in their mid-year results. The Arab Banking Corporation, which is one of the region's strongest and most prestigious financial institutions, recently published mid-year figures that showed a small increase in assets and loans, a 69-percent increase in loan loss provisions and a 19-percent fall in net profits.

Neighboring countries, whose economies had grown through the remittances of their citizens working temporarily in the Gulf area, faced similar problems. These countries include Egypt, Jordan, North Yemen and, to a lesser extent, Tunisia, Morocco and Lebanon.

The gradual fall in remittances as many expatriates returned home this year because of deteriorating economic conditions in the Gulf has meant a reduction in the influx of foreign exchange into these countries at a time when trade financing needs grew dramatically because of an appetite for imports that had developed over the last decade.

The impact was magnified in Egypt because of its dependence on oil exports as a main source of state income and foreign exchange.

In addition, the banks in these countries are struggling with the tightening of foreign exchange resources.

The emergence of problem loans, with the first signals of the slowdown in the Gulf, has brought under the limelight the role of the central banks in protecting the banks and are the first major test for the Gulf's monetary agencies, pointing up weaknesses in their ability to monitor the banks.

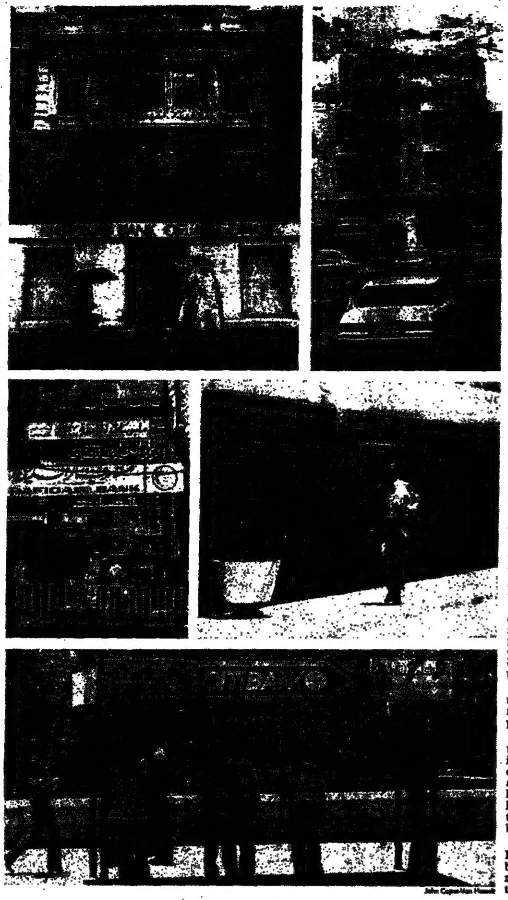
The crucial question of whether these bodies are lenders of last resort has come up repeatedly lately. However, with the exception of the Central Bank of Kuwait, the issue has not been resolved. Thus the extent of the authorities commitment to the banks in the event of trouble and the limits on their intervention remain unclear.

However, some banks have been bailed out with the help of the central banks or monetary agencies in the United Arab Emirates and Saudi Arabia. Without a legal framework, however, these authorities have been unable to overcome problems concerning Islamic law, with courts ruling in favor of the waiver of interest on problem loans due to their interpretation of Islamic theology as banning fixed interest.

The most decisive and radical steps made to avert a banking crisis were taken by the Central Bank of Kuwait, which is complementing the government's efforts to clean up leftovers from the collapse of the Souk al-Manakh unofficial stock exchange and help the country's financial institutions survive its repercussions.

The Kuwaiti bank moved last winter to enforce strict provisioning requirements on all banks operating in the country to the dismay of bankers who regarded the loan classification criteria as too harsh. As a result, incomplete published year-end figures have revealed that at least two of the country's five banks were unable to cover the

Continued on page 12



John Cope-Van Hasselt

The Higher the Climb, The Harder the Fall

By Kevin Muehring

LONDON — To say that there has been a crisis in Arab banking is perhaps only marginally too strong a description, but it is fair to say the last two years have not been particularly kind to scores of Arab financial institutions.

The higher the climb, the harder the fall, and the dramatic rise of the Arab banks onto the international stage on the back of the petrodollar surpluses of the 1970s and subsequent and equally dramatic fall — especially the offshore banks in the Gulf — is no exception to the adage.

But the reversal in fortunes among the Arab institutions should best be kept in the perspective of an inevitable shakeout of a market that was hopelessly overcrowded and big-headed with unrealistic expectations.

There are several unusual aspects of the Arab shakeout. For one, the scarcity of capital was never a problem. Rather what the Arab banks lacked — and to a certain, though diminishing extent, still do — was management expertise and depth, and an operating culture and market franchise.

But even more ironically, the Arab banks always lacked a market base, or at least a market equal to the grandiose capital they were either born with or accrued. The construction boom in their domestic markets could never by definition last more than a few years and the populations were too small and government handouts too large to ever fuel a classic consumer-led lending boom.

Internationally, the syndicated-loan market evaporated just as the banks were becoming increasingly dependent on it for their nondomestic asset growth, and most of the banks have lacked the management capability to adapt to the shift by borrowers and investors to the global capital markets.

The impact has been a shakeout that will leave a few leaner, but battle-hardened and better managed Arab banks. One could even argue that however painful the downturn, it was, nonetheless, the missing element to the evolution of Arab banking.

The downfall has, nevertheless, been dramatic and devastating. In Saudi Arabia, for instance, the consolidated profitability of the dozen commercial banks fell to barely 500 million riyals ($148 million) last year, three times less than that just the year before, while loan loss provisioning soared to more than 1.2 billion riyals from 700 million riyals.

National Commercial Bank, the kingdom's largest, saw its profits freefall by 80 percent to 99 million riyals in the year ending last September, while its provisions jumped to 3.3 percent of its loan portfolio.

There have been about a dozen bank collapses in the Gulf, especially in the United Arab Emirates and in Kuwait. Analysts estimate that up to half or more of the offshore banks in Bahrain are either unprofitable or there in name only. The perceived credit risk of lending to Arab institutions in the interbank market has risen to the point that all but the handful of first-tier banks are having to pay a hefty premium for their borrowings, if they have any lines at all.

"I just do not think it has bottomed out yet," said Rahmin Habib, a banking analyst at the Geneva-based Capital Intelligence. "There could still be some major shocks. Not necessarily a bank collapse — though that cannot be ruled out, especially in the U.A.E. — but there will still be a lot of pain and hand wringing."

Capital Intelligence instituted a credit rating system across the spectrum of Arab financial institutions, rating some 250 Arab institutions through eight rankings ranging from a "AAA" to "U."

No Arab bank has managed a triple-A rating and only half a dozen attained the AA rating, among them the highly regarded United Bank of Kuwait in London, National Bank of Kuwait, Gulf International Bank and Saudi International Bank. Arab Banking Corporation slipped down to a Single A due to its Latin American exposure. Al-Bahrain Arab African Bank, which has been having severe problems with its loan portfolio, has been downgraded to a split Single B/U rating.

> It is fair to say the last two years have not been kind.

Mr. Habib thinks, however, that the Kuwaiti financial system probably has seen the worst of it. Although the market and its financial institutions will probably never rise to their commanding heights of the late 1970s, the banks that have survived are emerging leaner, with cleaner balance sheets, and with battle-hardened management teams and, often, new board members unencumbered with the legacy of the Souk al-Manakh dealings.

Ironically, their potential emergence from under the debris of the al-Manakh disaster is due in large part to the tough, but politically controversial stance taken by Kuwait's central bank, which made the banks bite the bullet sooner rather than later. But banks in Saudi Arabia and the Emirates still have to provision fully against their bad debts. Saudi American bank, for instance, though one of the best managed banks in the kingdom, nevertheless has barely a 1-percent loan loss provisioning against its loan portfolio.

The result of the shakeout has been a polarization of Arab financial institutions into more distinctively defined tiers toward the extremes of the financial services spectrum, operating either globally or as regional or purely domestic specialty niche firms — in effect, a regional microcosm of the developments in the global markets over the last five years.

The larger, well-capitalized and supported "first tier" banks such as Gulf International, Arab Banking Corporation, National Bank of Kuwait, Saudi International Bank, National Commercial and Riyad Bank, and the National Bank of Abu Dhabi are at one end of the spectrum. They enjoy a firmly entrenched position in the international markets, in both the traditional and commercial banking markets and a toehold in the more difficult fee-earning investment banking services.

At the other end are the specialist firms with partic-

Continued on page 13

Currencies: A Wave of Devaluations Follows Collapse in Oil Prices

By Ken Ferris

LONDON — The impact of the decision by the Organization of Petroleum Exporting Countries to abandon production quotas and regain market share is still reverberating through the Middle East despite the voluntary production-cutting agreement introduced on Sept. 1. The oil price collapse has forced Arab oil-producers to accept devaluations, delayed budgets and cuts in public spending as they try to come to terms with sharply reduced oil revenues.

The fall-out from the collapse in oil prices to the current average of around $15 a barrel from January's $30 a barrel can be seen clearly in the foreign exchange markets. The stable environment in which most Arab currencies have historically traded has given way to devaluations and downward adjustments in Oman, Saudi Arabia, North Yemen, Kuwait, Syria and Libya this year.

The fundamentally weak currencies, such as the Egyptian, Sudanese and Lebanese pounds, have seen their downward spirals accelerate as revenue has ebbed away with the price of crude. Jordan, Qatar, Iran, the United Arab Emirates and Bahrain have weathered the oil price slump without resorting to a downgrading of their currencies, but they have been forced to make sharp cuts in public spending.

Saudi Arabia, the largest OPEC producer, has been one of the hardest hit by the reversal in the oil price. The country's oil earnings are expected to drop below $22 billion this year against $27 billion in 1985 and $110 billion in 1981.

Riyadh's assurances that a devaluation would not follow the first postponement of the budget in March proved short-lived. The riyal was devalued on June 1 by 2.75 percent to 3.75 riyals to the dollar and the market expects another substantial move this year.

Riyal deposit rates now stand at a large premium to dollar interest rates as dealers continue to reduce long riyal positions ahead of a possible downgrading of the currency. Confidence in the riyal has not been helped by the Aug. 4 announcement that the budget will now be delayed until December 21.

Oil prices above $16 a barrel are needed just to hold Saudi Arabia's trade and budget deficits close to last year's $20 billion and $12.3 billion respectively. Previous austerity measures, which cut state spending in fiscal year 1985/86 to only 30 percent of that in fiscal year 1981/82, limit the scope for further budget cuts. And foreign exchange reserves are now some $40 billion below their level of $120 billion.

Those factors highlight the pressures for a devaluation, which traders say will be of the order of 10 halas. That would take the riyal to 3.85 to the dollar compared to an average rate of 3.36 to the dollar in 1979 — the year of the second major oil shock.

"The market expects a further devaluation if oil remains between $10 and $20 a barrel by the end of this year," said Trevor Bush, foreign exchange and money markets manager at Riyad Bank in London. "The anticipation of a move will put pressure on the currency, which means Saudi interest rates will move even higher." The authorities devalued by less than 3 percent last time, but that was still less than 3 percent, which is not very much when you are trying to correct a large [$13.5 billion expected this year] current account deficit."

The falling oil price has also pushed Oman into its first devaluation for 13 years, a 10.2-percent move on Jan. 26 to 0.385 Omani rials to the dollar.

However, oil accounts for 92 percent of exports and 84 percent of national income so Oman is almost totally dependent on the oil price for its economic well being. The country suffered a severe reduction in revenue in the first eight months of this year and unless the oil price maintains its recent gains a further currency adjustment may be necessary.

Libya responded to the oil price drop by deferring the 1986 budget and devaluing its currency. The 4.2-percent devaluation announced in March was accompanied by a switch from a dollar to a special drawing right (SDR) peg, which broke the 0.3 dinar to the dollar link held since 1973. Libya's oil revenues are expected to fall 50 percent from $10 billion in 1985, but austerity measures imposed since 1982 limit the scope for further cutbacks. That indicates further pressure on the dinar unless oil prices hold on to the gains they have made since they bottomed out in August.

The drop in the oil price has also affected Arab countries that rely on remittances from workers in the Gulf region. For example, a sharp fall in aid and remittances forced North Yemen to devalue the rial by 10 percent in January to 7.25 rials to the dollar. The currency has since been devalued in stages to 10.5 rials to the dollar.

The Yemeni oil industry is only expected to produce 200,000 barrels a day by 1991, so the oil price collapse has not directly hit government revenues.

However, transfers from the one million Yemenis working overseas have been drastically reduced by the oil-induced economic slowdown in other Arab countries. In the first quarter of 1986 remittances were down 30 percent, to 872 million rials from the fourth quarter in 1985.

The Central Bank of Yemen has responded to recent speculation against the rial by cracking down on unauthorized currency traders. It has also stopped issuing licenses for new foreign exchange dealers. Nevertheless, traders believe the moves are unlikely to reverse the pressure on the currency, which is reflected in a 25-percent black market premium over the official rate.

Falling remittances have also affected Jordan, which saw such receipts drop for the first time in 1985 to 403 million Jordanian dinars from 475 million dinars in 1984. A further significant decline is expected this year as the Gulf countries cut back their foreign labor forces.

However, the oil price slump is more of a mixed blessing for Jordan, which benefits from a lower oil import bill. Crude-oil liftings, which accounted for 18 percent of import costs in 1985, fell to 39 million dinars in the first quarter of this year, against 50 million dinars in the same period of 1985. That trend is expected to help to narrow the trade deficit to 560 million dinars this year.

The outlook for the Arab currencies is broadly tied up with the degree to which the oil price recovery can be prolonged. That depends on whether OPEC decides at its Oct. 6 meeting in Geneva to continue holding back production after a review of the two-month accord currently in operation to limit output to 16.7 million barrels a day.

A SPECIAL REPORT

The Shobokshi Empire: Case Study in Work-Outs

By Kevin Muehring

LONDON — After nearly a decade of frenzied lending to the oil-fueled boom economies of the Gulf, the days of judgment for the dozens of international and domestic banks arrived with a vengeance over the last two years with the surge in nonperforming loans.

Some banks saw the handwriting on the wall early enough and tightened up before the crash. Citibank, for example, is notably absent from the list of banks with the worst bad loans on their books. National Bank of Kuwait also began reducing its vulnerability to the ravages of the Souk al-Manakh even before it began its downward spiral in 1982.

But dozens of international, offshore Arab and domestic banks did not — or saw their best clients dragged down by the region's downward pull — and found themselves devoting more and more of their management time to defend and bolster deteriorating loan portfolios through loan work-outs and reschedulings.

The types of loan work-outs in the Gulf have run the gamut, ranging from a pure financial rescheduling, a mix of corporate restructuring and loan rescheduling, the controlled liquidation and the extreme futility of the lawsuit and "every man for himself."

But the loan work-out in the Gulf, where for the most part, a legal infrastructure does not exist and the prevailing religion and culture chafes against what is considered the Western import of interest, is an entirely different affair than in Rio de Janeiro or Des Moines, Iowa.

Discovering assets is often a Herculean task. And once found, the real work begins in actually disposing of them, especially in the Gulf itself.

The rise and subsequent fall of the Shobokshi empire, and the negotiations to whittle its mammoth $685 million of debt into a smaller repayable figure, provides what is perhaps the most graphic illustration of the immense complications and difficulties of a Mideast loan work-out.

The agreement between the Shobokshi Group, its financial advisers, Morgan Stanley & Co., and 83 creditor banks led by First Chicago has, in fact, yet to be finalized after more than two years of negotiations. But it has contained several flashes of inspiration and creativity and could well become a precedent-setting showcase of how to, or even how not to, do a Middle East work-out.

The Shobokshi group was established in Jeddah, Saudi Arabia, in 1956 by Hussein Shobokshi. The patriarch of the family ran what was essentially a trading company through the 1950s and 1960s, while the two sons, Fahad and Ali, went to Cairo for their education in business administration.

The small but profitable operations were quickly transformed

> This agreement could well become a precedent-setting showcase.

during the boom years of the 1970s by the two brothers after their return to Jeddah into a diversified conglomerate centered around the contracting arm, the General Agency Corporation.

By 1982, GAC held assets estimated at nearly $856 million, while turnover reached about $300 million, more than double that of 1980. But like many of the rapidly expanding companies in the Gulf at the time, the group was operating with scant internal financial controls with funds earmarked for projects often being channeled into real-estate investments or an assortment of investments abroad.

The strong ties both brothers held to Egypt, for instance, led to several major investments in Cairo that soured. Government cutbacks in payments, and the beginning of the slowdown in the Saudi economy in 1982 and early 1983 was quickly felt by the group.

Yet, the Shobokshis were able to continue borrowing offshore. Debt had accumulated to about $294 million by the end of 1981. In 1982, another $75-million loan to restructure existing short-term debt was raised through a syndicate of Bahrain-based banks. In 1983, First Chicago pressed ahead with a $106.3-million, five-part syndication. In May 1984, another $46 million was raised from an international syndicate of offshore banks.

But it was too late to stem or hide the losses. Several interest repayment dates were missed in mid-1984, which in turn triggered cross default mechanisms of various loans outstanding. The first meeting between the Shobokshis and the major creditors were held in London in July 1984. Morgan Stanley was also brought in as an adviser to the borrower and a 90-day interest moratorium began in September.

The banks first tried a "macro approach" in which all the debt would be lumped together and the banks would then contribute fresh funding on a pro-rata basis to keep the company afloat, namely through maintaining the existing contracts. The banks with general unsecured loans, however, balked at the thought of injecting fresh funding to support projects in which the cash flow would essentially flow through the accounts of other banks.

By November, the tact was switched to a project-oriented basis in which the project lenders agreed to extend fresh financings to see their projects through. They also assumed direct responsibility for the financing of each project.

In February 1985, Morgan Stanley asked for a further interest moratorium until August. The same month, the creditor banks formed the seven-bank steering committee chaired by First Chicago.

The key meeting of the rescheduling took place in London in March, when Morgan laid out the broad outlines of the rescheduling agreement. Three crucial meetings followed in August and October and in March this year.

There were often heated criticisms of Morgan Stanley's proposals, but for the most part, the agreement the banks hope to sign later this year is in fact essentially the same as that first offered to the banks about 18 months before in March 1985.

The subsequent meetings were primarily to iron out the fine print and a key objection of the banks to a "no recourse" clause in the event of nonrepayment, which in fact was only slightly modified in the current agreement. The ball was almost always with the banks, which had split into two camps with diverging interests in the deal.

According to some of the loan documents, the Shobokshi Group's total liabilities in February 1985 were $685 million. The bulk of this was in overdrafts, working capital loans and letters of credit and refinancings totaling about $552 million at the then prevailing exchange rate. The remaining $133 million was in off-balance-sheet contingencies such as performance and progress payment guarantees and bonds.

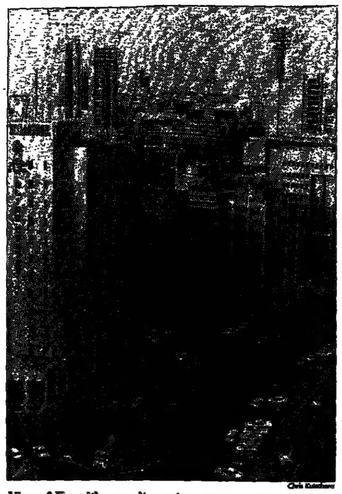
The liabilities were spread across 85 banks, the largest being First Chicago, and into two broad categories of project related and general purpose, unsecured loans. While some banks such as First Chicago were in both categories, the other 84 banks were roughly split into the two roughly equal camps of project secured and general purpose unsecured lenders.

The loans and guarantees of the project lenders for 10 major projects totaled just over $285 million, a third of which was in contingencies. The general purpose lenders held the other $400 million, or 58 percent of the total debt, the lion's share of $359 million was unsecured. It was these different types of exposure and perception of interests that have made the rescheduling so difficult and extensively delayed.

The repayment plan itself consists of targets that would be met through cash generated from three sources. The first is the completion of projects that would liquidate the overhang of the guarantee and bonding contingencies. Second, some excess cash flow would be generated through the projects, and third, additional funds would be raised through the disposal of non-strategic assets. The repayments would be stretched over a seven- to nine-year period to 1992 or 1994, depending on Shobokshi's ability to raise cash.

The repayment mechanism is complicated, but pared to its bones essentially revolves around a "trust" out of which repayments would be disbursed to the banks on a pro-rata basis in two stages. The first stage would be split between payments to the general purpose lenders out of the trust, and the project leaders receiving only some payments but their contingent liabilities liquidated through the completion of the projects.

By June 1986, the date of the last completed project, the contingent liabilities would be eliminated and the remaining project cash debts "offloaded" into the general unsecured pool of debt and paid on a reconstituted pro rata basis out of the trust. The general debt pool at the outset totals about $359 million, the "offload" component is likely to be about $86 million, thus lifting the total to about $445 million.



Chris Kutschera

View of Kuwait's new city center.

Western Creditors Grapple With Egypt's Unwieldy Debt

By Alex Ferguson

LONDON — Egypt is teetering on the brink of bankruptcy, again. During the hot months of August and September, World Bank and IMF teams flew in and out of Cairo, grappling with the details of a solution to the country's problems. Egypt wants an IMF standby credit to help the country's balance of payments.

> During the hot months, World Bank and IMF teams flew in and out of Cairo.

And on Sept. 17, Egypt was on the agenda of the Paris Club, the forum for Western national export credit agencies. All have, to their regret, insured and financed exports to Egypt. At issue at the meetings were the vexed questions of how long the country can carry on paying its debts and what to do when the payments stop. Most of Egypt's larger debtors, Britain, France and West Germany, reported alarming payment arrears.

Press reports have speculated for months on when Egypt will finally reschedule its debts, which are now estimated at $36 billion. Many observers are betting that it will be this year. Only many of them were saying the same thing last year.

The problems have hardly changed. Egypt relies heavily for its foreign exchange earnings on oil, workers remittance and dues from the Suez canal. These three earners fueled the economic growth of the 1970s. None of them are bringing the same amounts of cash in as they used to, although canal dues have recently increased again.

The problems may remain same but this time Egypt will be lucky to avoid a rescheduling, argue bankers. This is not only due to the seriousness of the situation, but also because the Egyptians have become more realistic. The government has recognized that it is entering a three-year debt hump, when payments peak. This hump is not caused by recent borrowings. It has always been there, only Egypt did not know it. Better accounting methods, encouraged by the IMF and World Bank, have revealed the situation to the government and encouraged it to think of more long-term solutions.

The main problem now is to decide the form of rescheduling. The IMF told Egypt that it needed a multilateral rescheduling. Its various national creditors agree. They would prefer to negotiate with Egypt as a unified front to exact the best deal possible. But before they agree to a rescheduling they want Egypt to agree to the terms of an IMF economic adjustment program. This is a standard condition for Paris Club reschedulings.

That could be hard. Egypt has been talking to the IMF for years about reforming its economic system. Even though it would like a standby facility, the government finds it hard to meet the IMF demand to dismantle the country's multitiered exchange rate system. Pegged rates are used to calculate import dues and payments for basic commodities. They are well below the rates quoted on Egypt's thriving black market.

Egypt is also reluctant to reschedule multilaterally. It prefers picking off creditors, one by one. On this front, Egypt can already notch up one success: one bilateral rescheduling last year with France on debts owed for military purchases.

Similar deals are unlikely on pure trade debts. But bankers are pleased to see that Egypt is at least doing something about its military debts. "In many ways that's the key," says a London banker. "If they sort that out, it mitigates the burden considerably."

Military assistance takes up most of the aid funds Egypt receives. In the fiscal year of 1985 a total of $1.9 billion was provided by donors. Of this $1.175 billion is thought to be for military purposes. The United States provided by far the most aid with around $1.2 billion. Rescheduling the total of $4.55 billion owed to the United States would be a big step, as arrears on interest are now under the $300-million mark.

Egypt has complained about the high interest rates it pays on its U.S. debt. The rates are high because they are the fixed rates used for government subsidized export credits under guidelines set by the OECD. These are adjusted every six months, according to average bond yields. Over the last year the rates have fallen by over 2 percent. But Egypt is still paying at higher, fixed rates of interest.

Military debts to the Soviet Union have been virtually written off. Payments on $3-4 billion were suspended in 1977.

A gloomy future has not stopped Egypt continuing to be a big export market. Major projects, like the $1 billion El-Daban nuclear plant, may be pushed back year after year, but smaller trade deals continue, even on credit.

The Egyptian government has set rules on how trade is to be transacted. All private sector imports have to be paid by letters of credit. Public sector imports can be done through a bank collection.

Payment delays are a hazard. These are a feature of exporting to Egypt and are now running up to six months after due date. Banks confirming (discounting for cash) letters of credit for Egypt now build in the payments delays into their charges to compensate for receiving their money late.

This has meant that the cost for exporting on credit to Egypt has risen, finding the bank that will do Egypt is becoming harder and harder.

Jack Killick runs the Export Credits Clearing House, which specializes in placing trade credits with banks in the City of London. "Under present circumstances it is not surprising that most banks have closed down on new credit exposures for Egypt. Nevertheless there is still some capacity in the City and Letters of Credit confirmations can be arranged for 540 to 720 days. Prices vary widely."

Another problem facing exporters is that not all Egyptian banks are acceptable to foreign banks. Until 1974, when the sector was liberalized, four state banks enjoyed a virtual monopoly: Bank of Alexandria, Banque du Caire, Bank Misr and the National Bank of Egypt. Today there are around 70 investment companies and banks, although the big four still dominate commercial banking and new local banks.

Choosing the right bank makes a big difference to how quickly foreign exchange is remitted. Many are wary of the inefficiency of the state banks. And few will touch a transaction involving the Bank of Alexandria. It has a reputation for slowing things up. "Add 60 days for incompetence," says one foreign banker. And those 60 days are on top of the six months that it can take a foreign currency payment to work its way through the system.

Alain Keler/Sygma

Former Prime Minister Mohammed Mzali, whose dismissal by President Habib Bourguiba of Tunisia in July has raised considerable political uncertainty in the country.

Austerity Measures Set By New Tunisian Leader

By Francis Ghiles

Political fears are magnified by the parlous state of the country's external finances.

TUNIS — The Tunisian National Assembly was recalled in August for a special session to hear Prime Minister Rachid Sfar announce key austerity measures. This was Mr. Sfar's first major speech, coming a little over one month after his appointment as prime minister by the 83-year-old head of state, Habib Bourguiba.

Considerable uncertainty has been generated in the country by the president's decision to divorce his second wife, Wassila, and dismiss his former prime minister, Mohammed Mzali. Both were at the heart of powerful networks of senior Tunisians, many of whose members are further threatened by the campaign against corruption that was launched earlier this year by the head of state.

A number of people have been arrested, such as Mr. Mzali's son, Moktar Mzali, or condemned for alleged malpractices, such as Tewfik Torgeman, the former head of the International Union of Banks and Mrs. Bourguiba's son-in-law. Many in Tunisia fear that the former first lady, now in exile in the United States, and the former prime minister might be brought to trial.

Such fears are magnified by the parlous state of the country's external finances. The deficit on the current account is expected to increase by 150 million dinars ($200 million) to 640 million dinars this year compared with last year, while the balance of trade is expected to move further into the red, to about 965 million dinars.

The foreign debt, meanwhile, will increase from 3.18 billion dinars to 3.73 billion dinars, and the budget deficit will reach 240 million dinars this year, 3.3 percent of GDP, against 3.2 percent in 1985.

The country's economy has been buffeted this year by three major factors: the plummeting prices on crude oil, which last year still accounted for over one-third of Tunisia's foreign income, the sharp decline in tourist receipts following the U.S. bombing raid of the Libyan capital of Tripoli in April and a disastrous crop due to drought.

Overall, the loss of foreign earnings is estimated at $300 million while the budget shortfall will amount to 175 million dinars.

In his speech the prime minister announced immediate measures to restrain spending and, thus, avoid the budget deficit getting out of hand. State expenditure will be reduced by 36 million dinars, most of which will be on the capital account, to 2.392 billion dinars.

This figure may appear modest but the initial budget for this year only represented a 1-percent increase in real terms on the 1985 figure, and this figure does not include debt-service payments. When set against the 2.4-percent annual increase in population, these figures speak of austerity — if not deflation.

The continuing reduction in subsidies on basic foodstuffs, which will cost the state 220 million dinars in 1986, against 260 million in 1984, the fewer new jobs on offer this year and the loss of jobs in the private sector are already making daily life tougher for many Tunisians.

Yet, earlier this summer, a confidential document given to the Council of Ministers concluded that the option of simply cutting back imports to avoid increasing the trade deficit would slow economic growth and fail to address Tunisia's structural problems.

Mr. Sfar and the minister of finance and planning, Ismail Kheli, are aware of this problem. Mr. Kheli has been Tunisia's negotiator with the International Monetary Fund and the World Bank for the past two and a half years. Both organizations have privately approved the Tunisian austerity measures and both are trying to help the country over its present difficulties.

Beyond the $225 million in structural readjustment loans that the World Bank will extend to Tunisia's industrial and farming sector later this year, the IMF will allow Tunisia to draw its first part of 30 million dinars and will extend 115 million dinars of compensatory finance — available because of the sharp fall in the country's exports.

The IMF and the World Bank have been critical of Tunisian economic management in recent years and have pressed the government to address what they feel are major weaknesses.

A World Bank report during the summer highlighted what it felt were main vulnerabilities: large wage increases in the early 1980s that were not matched by productivity gains, a growth in consumption that until last year was greater than that of GDP, investments that were too capital-intensive and not always discriminating, too high tariff barriers and overinvestment by the private sector in real estate and building.

Beyond the austerity measures announced in August, the new Tunisian government has sought to address some of the issues raised by the World Bank report, criticism of which certain ministers, senior civil servants and bankers have been well aware for some time.

Apart from trimming subsidies — while ensuring that the poorest families are provided for — the government has also decided to cut maximum tariff levels from more than 100 percent today to 50 percent in 1987 and, with luck, to 25 percent by 1991.

Prices of industrial products will be freed progressively, with about one-third of all such goods benefiting from such measures this year. Imports will be freed for those companies that export at least 25 percent of their production.

These are bold measures, especially since much of Tunisia's private industry has never really had to compete in international markets and is backed by grants from the state and can afford to delay repayment on many of the loans contracted from the banks, particularly in the important tourist and hotel sector.

Liberalization and privatization are brave words, and to date the state has been an unwilling player. For example, it is prepared to sell a stake of its shares in, say, Tunis Air, but refuses to allow any banks a say in running the operation.

Many of Tunisia's older banks are so top heavy with unrealizable assets that they are unlikely to expect them to show interest in acquiring new ones. The more recently set up Tunisian Arab banks, such as Banque Tuniso-Koweitienne de Développement and Stusid (joint ventures with Kuwait or Saudi Arabia) or Beit Ettamwil Saudi Tunsi, an 80-percent privately owned Saudi Islamic bank, might prove to be keener players.

The thrust of the World Bank recommendations point to more rational investment, more transparent accounting and wage increases based strictly on productivity gains.

With hard currency reserves at a very low ebb, liberalizing the management of the economy presents a major challenge, especially since the central bank is reluctant to borrow further from international banks.

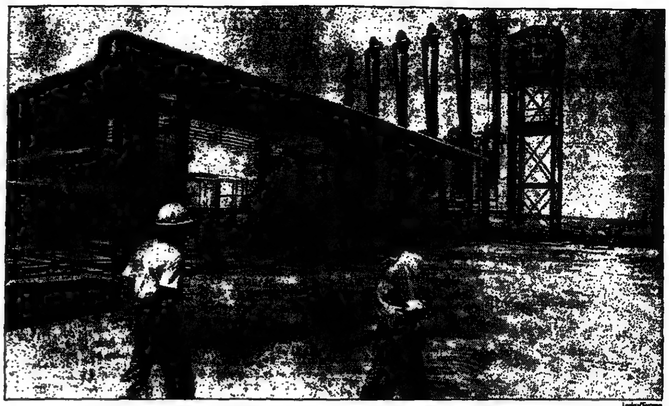
The greatest challenge, however, comes from the country's current political uncertainty and is very unsettling for the business community and civil service.

Nevertheless, the authorities successfully devalued the dinar by 12 percent against the French franc between January and June of this year and held price increases during the first seven months of 1986 to 0.4 percent, against 2.8 percent in 1985 and 4.2 percent in 1984.

Selling austerity and reform to 7.3 million Tunisians who are less and less party to their masters' political games is a difficult task. But it is one that Mr. Sfar's government might just pull off.

For Algeria, Sharp Drop in Export Income

By Francis Ghiles



The gas-loading dock in Arzew, Algeria.

ALGIERS — Algeria's export income, 98 percent of which is derived from the sale of hydrocarbons, faces a massive decline this year. The halving of the price of oil and the sharp decline of the dollar, the currency in which oil and gas is traded, will cut the country's foreign purchasing power by about 40 percent.

Stringent measures were announced last spring, which have cut government current expenditure and investment by one quarter and aim to reduce imports by at least 20 percent from last year's total of 48 billion dinars ($10.3 billion).

Quite apart from the scaling down and postponing of major projects — the Algiers metro will probably not see the light of day before the next decade — the decline in foreign income has forced the authorities to increase many prices, although those of basic food staples have not so far been affected. It has also resulted in a number of shortages, more keenly felt in the capital of Algiers.

The authorities asked the population to refrain from sacrificing a lamb as is the tradition for the Eid el-Khebir feast last August. The present shortfall in income does, however, face the authorities with some difficult choices. All the talk of liberalizing the economy since 1981, of allowing the private sector more freedom, have not led so far to any fundamental changes in the very bureaucratic nature of central government control.

It is significant that Algeria still boasts one of the most restrictive joint-venture laws in the world. When defending a new and more realistic bill in front of the National Assembly last August, the minister of finance, Abdel Aziz Khellef, was overruled on the proposition that Algerian state companies might be allowed to hold less than 51 percent of equity. The parliamentary debate was not preceded by any debate in the press or in the ruling Front de Liberation National, where it probably stood little chance of being accepted. So fierce is the nationalistic streak and vested interest of many of its members.

However, if the country's foreign income does not recover in 1987 something is going to have to give. Not a few Algerians are secretly nursing the hope that sheer necessity will force President Chadli Bendjedid to take much bolder measures than have been taken so far. The room for maneuver is narrow, but it does exist. Algeria's foreign debt burden is heavy, but unlike many of its Third World peers, Algerian leaders sought, after 1979, to avoid falling into the debt trap, that is the situation where foreign debt payments dictate every economic move.

Sygma

Algeria's President Chadli Bendjedid.

Algeria's foreign debt reached $17 billion last year and is expected to rise by a further $500 million to $1 billion this year, while servicing it cost $3.8 billion last year and about the same in 1986. A debt-service ratio of just over one-third of exports of goods and services will climb sharply this year. Reserves doubled to $2.8 billion last year and do not appear to have been drawn down substantially since.

Algeria still has the capacity to raise money in the international capital markets, although at a higher price. But the banks still favor the archaic method of syndicated credits and resist the many more sophisticated — and cheaper for the borrower — ways of raising funds.

Countertrade has been carried out on a wider scale this year, and concessionary financing was eagerly sought. The costs of such a policy, particularly in the months before the posted OPEC price for oil fell into line with the market price were heavy for the Algerian party in the first instance, and for foreign companies in the second. Delays in payments of imports do not appear to have increased unduly.

The centralized system has allowed Algeria to limit the damage to its foreign finances. Algeria had a trade surplus of 16 billion dinars in 1985, while the deficit on services was reduced to a minimum. But last year's $200-million current account deficit is expected to increase tenfold this year.

Until last year Algeria was spared any major decline in its foreign income because it had diversified its hydrocarbon industry away from its dwindling oil reserves to emphasize its vast natural gas reserves. Oil, gas, liquefied petroleum gas and condensates each accounted for about one quarter of its foreign income. However, this year's fall in oil prices is also forcing Algeria to concede much lower prices on gas to its major European clients and has forced Sonatrach, the oil and gas monopoly, to get the National Assembly to approve a new law on hydrocarbon exploration that relaxes the restrictive provisions of the previous law.

The belt tightening of recent months has served its purpose but cannot replace more fundamental changes. There is no indication that the government wishes to relinquish its monopoly of foreign trade nor cut the value of the dinar, which had been allowed to move up with the dollar after 1981.

The value of the dinar is a major deterrent to developing nonoil exports, be they wine, shoes or pig iron. To unshackle some sectors of its economy, to liberalize and simplify rules is the major challenge the Algerian government faces today. The consequences of little or no growth in the years to come will be measured in jobs — over 200 000 are needed every year — incomes and ultimately social peace and political stability.

A SPECIAL REPORT

For Morocco, A Reprieve From Pressures

By Francis Ghiles

RABAT — Plentiful rain, the collapse in the price of oil, a lower dollar and the decline in U.S. interest rates have provided the Moroccan government with a much-needed breathing period.

In addition, King Hassan II does not appear to have taken advantage of these factors to relax the austerity program, which Morocco, under the aegis of the International Monetary Fund and the World Bank, has been pursuing for the past three years.

The strain in relations between the IMF and Rabat, which earlier this year led to the suspension of a 200-million special drawing right granted to Morocco 12 months ago, appears to have eased as negotiations got under way this month for a new IMF standby credit.

The previous standby credit was suspended after Morocco failed to meet the economic targets agreed to with the IMF — amid the kind of recrimination that has become customary in such circumstances.

Senior officials in Rabat argue that they cannot undertake reforms too fast at the risk of undermining the king's authority and threatening social peace.

IMF and World Bank officials, however, would prefer that Morocco not agree to targets that it cannot realistically meet and then find itself in no position to honor their commitments.

This year's report from the Banque du Maroc, the central bank, insists that whatever the progress Morocco may have made toward reform, now is not the time to relax the efforts.

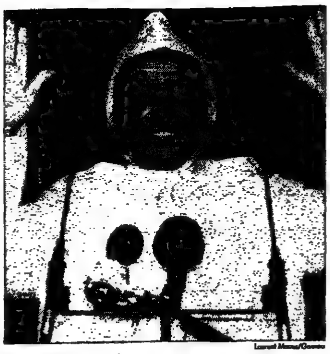
It expressed concern about the continued high level of private consumption and the low level of savings, the latter despite the fact that last year, for the first time in 30 years, Moroccans could earn a real return on their bank deposits.

Morocco's gross domestic product rose by 4.3 percent last year. That was double the figure for 1984 and the best result since 1979.

A good cereal crop was a major reason for this result and was all the more important because half the population lives on the land. A record crop this year will further help growth.

Government spending did, however, increase by one-third, although investment was the same as in 1984. The budget deficit was trimmed, but the state still owes Moroccan companies at least 9 billion dirhams ($1.04 billion).

Last year's money supply increased by 14 percent, well above target, but the Banque du Maroc insists that the 7.7-percent inflation rate is proof that all is under control.



Laurent Maous/Gamma

King Hassan II of Morocco.

The current account deficit, meanwhile, was cut from 11.8 percent to 7.7 percent of GDP and could well be reduced by half this year because of the economic improvements. Last year's trade deficit still amounts to four-fifths of the country's exports.

The overall deficit on the foreign account and interest on foreign debt remain well above what Morocco earns from tourism and remittances from Moroccan workers overseas. Both of these rose sharply in 1985.

Other important reforms have included a liberalization of trade, with 85 percent of all imports now free and a cut in the maximum tariff to 60 percent.

Abolishing the export monopoly of the Office de Commercialisation et d'Exportation was a move in the direction much sought by the IMF and the World Bank.

Despite a 13.8-percent increase in exports, which in real terms is less impressive once the continued devaluation of the dirham is taken into account, terms of trade continued to decline, not the least because of the fall in the price of phosphates and phosphoric acid. Morocco is the world's largest phosphate exporter.

In addition, European Community restrictions have hurt Moroccan exporters, particularly of fruit, vegetables and certain leathers and textiles, since Europe accounts for the bulk of the kingdom's trade.

The absence of relations with Algeria, once Morocco's major market, weighs heavily. The dispute between the two countries over the future of the Western Sahara, whose defense is costly to Morocco, shows little sign of being resolved soon.

The Moroccan foreign debt, which has been effectively rescheduled for the past three years, is $14 billion, which is more than 100 percent of GDP. Debt repayments this year will cost $2.1 billion, and Morocco can count on $1.7 billion worth of relief.

The country has drawn 440 percent of its quota with the IMF, a higher figure than any country other than Sudan and Jamaica. Agreement on a new standby credit is vital, not the least because the banks might lend Morocco new funds.

However, U.S. banks are unhappy that the $450 million worth of bankers acceptances and advances they have outstanding are considered by Rabat as working capital rather than repaid regularly and redrawn.

The introduction of a value-added tax last April, which hurt wholesalers who hardly pay taxes, and the raising of electricity, telephone and water bills that many well-connected people never pay, suggest that the spirit of reform is not dead. But getting results from the National Association for Investments, which manages a huge portfolio of state investments, is vital.

As he tries to negotiate a new standby credit with the IMF this fall, the new minister of finance, Mohammed Berrada, whose experience to date has been confined to the private sector and university lecturing, faces his first major challenge.

The consequence of a failure is something most senior Moroccans do not believe they will have to face.

CONTRIBUTORS

ALEX FERGUSON is the news editor of Euromoney Trade and Finance Report.

KEN FERRIS is the editor of Euromoney Treasury Report.

FRANCIS GHILES is a London-based journalist specializing in North African affairs.

RAMI G. KHOURI is an Amman-based journalist who writes about economic affairs and development in Jordan. He is a former editor of The Jordan Times.

KEVIN MUEHRING is a contributing editor to Institutional Investor magazine.

OLFAT TOHAMY, an Egyptian journalist based in Cairo, specializes in the Middle East.

Trade, Project Financing Slump

By Alex Ferguson

LONDON — Now hardly seems the time for Arab banks to develop their expertise in trade and project finance. Major projects are hard to find nowadays. Every developing country has them, but most cannot afford them. And the Middle East, where Arab banks are at home, is the market where the biggest slump in both trade and projects seems to have happened.

West German companies, like Lurgi and Krupp Polysius, made a killing in the 1970s and early 1980s out of huge turnkey plants in Arab markets.

Business today is a fraction of what it was. One only has to look at the 1985 results of Hermes, West Germany's export credit insurer, which guarantees turnkey contractors against the default of a buyer. These show that in 1982 Hermes insured 54 deals, each worth more than 100 million Deutsche marks ($49 million) and with a total value of 17.5 billion marks. Last year a paltry nine deals were covered, worth 3.1 billion marks.

The crash of the oil price, which overnight turned extravagant Middle Eastern governments into penny pinchers, is cited as the major cause of the project market's decline.

Paradoxically, the hard times that lie ahead for the region offer greater opportunities for Arab banks.

The Middle East is turning from a cash to a credit market. Many foreign banks that opened in the Gulf during the 1970s have left. Those that remain are wary. With bad debts rising, creditors are discovering that recourse to Islamic law is no foolproof way of recovering what is owed to them. Credit checking is the only answer. And the Arab banks with their local contacts stand a better chance of assessing a potentially bankrupt debtor.

But they will have to get better at it. Bankers estimate that in Saudi Arabia around 25 percent of domestic loans outstanding are classified as nonperforming — meaning that they are not being repaid. A similar proportion is given for bank lending in the United Arab Emirates and Kuwait.

Difficulties at home have not stopped Arab banks expanding their international activities. With trade and commercial banking as their basic business, developing into project financing is the next natural step. More sophisticated areas of investment and merchant banking need greater investment and are, in any case, saturated with expertise.

"If a Wall Street bank has 20 Eurobond specialists, then we have two," an Arab banker said. "When we want capital markets expertise then we become their customers. But when their clients are bidding for a Yemen pipeline, it's a different story."

Saudi American Bank and National Commercial Bank of Saudi Arabia have recently received banking licenses to start business in London. Both are looking at project finance as an important part of their future operations.

Other banks have been after the business for longer. Most are multinational Arab banks, like Union de Banques Arabes et Françaises (UBAF), Gulf International Bank and the Arab Banking Corporation.

They distinguish themselves by looking at business in any part of the Arab world, many finance deals that Western banks would run a mile from. They have correspondent lines with Iraq's Rafidain Bank. This can help Western banks.

The Zurich-based Finanz AG claims to have recently financed a one-year credit for an Egyptian exporter to Iraq, with repayments on the promissory notes guaranteed by a major Arab bank. The deal is such a rarity today, with Iraq defaulting on most of its repayments, that Finanz AG refused to give the Arab bank's name.

But in project finance, Arab banks have the reputation of taking the back seat. They are not seen as arrangers, but simply as the providers of funds when loans are raised.

It is the labor-intensive work of arranging deals, where fees are earned from advisory work, that is in the forefront of project finance business. Chipping in with the funds simply means responding to a syndication telex. The rewards are correspondingly less.

Arab banks are becoming more visible in project finance. Their biggest coup this year was the world co-financing for the Kayraktepe dam project in Turkey. World Bank co-financings are credits divided into A loans, taken by commercial banks, and smaller B loans provided by the World Bank to stretch maturities for the borrower. Co-financings are designed to tempt banks into lending to developing countries. To date, no debtor has defaulted on a World Bank loan.

But with the Karyaktepe project many banks were not so sure. They were not convinced that the loan was really being used for the dam and thought that its real purpose was to help Turkey's balance of payments.

The Arab Banking Corporation bid aggressively for the mandate to lead manage the loan. To win the deal it agreed to underwrite the financing completely. That meant that if ABC could not find enough banks willing to take a slice of the loan, then it would contribute itself. The Turkish treasury was therefore sold a presyndicated deal. This meant that the large amount raised, around $200 million, would not interfere with other Turkish borrowing.

Turkey is a project market that Arab bankers take seriously. They have financed other major projects. Arab Bank joined Italian and American banks to raise $263 million to finance the controversial award of the second Bosphorus bridge contract to a Japanese-Italian consortium. Arab Petroleum Investments Corporation joined in the $257-million presyndicated deal for the Turkish portion of the Iraq pipeline.

Turkey's predominance as a major market has not meant that others are neglected. French and West German consortiums are currently competing for the $210-million Casablanca water treatment project. Both have large Arab banks providing finance. Abu Dhabi is installing a $150-million television and telecommunications network. And in Bahrain, the country's aluminum company is expanding its facilities, which will need between $35 million to $40 million worth of finance.

Another area that Arab banks are watching is aircraft finance. Gulf Air, to take just one carrier, is looking to modernize its fleet. Others are doing the same.

Arab banks act as financial advisers for many of the airlines. They help decide which financial package looks best for the airlines.

Oil Decline Curbs Projects

Project financing, at its height in 1973, started to decline as oil output began to fall in 1981, and even further in 1983, when production programming was instituted.

(millions of barrels per day)

		1973	1981	1983	1985
OPEC Members	Algeria	1.097	.798	.661	.632
	Iraq	2.018	.897	1.099	1.427
	Kuwait	3.020	1.130	1.05	1.01
	Libya	2.174	1.218	1.03	1.03
	Qatar	.570	.405	.294	.296
	Saudi Arabia	7.596	9.80	4.56	3.3
	UAE	1.532	1.502	1.11	1.2
Non-OPEC Members	Bahrain	.068	.044	.042	.042
	Egypt	.165	.603	.682	.871
	Tunisia	.082	.111	.115	.120
	Oman	.294	.328	.389	.490
	Syria	.105	.163	.161	.162

Source: OAPEC.

Gulf Banks Reflect the Slowdown

Continued from page 9

loan loss provisions set by the bank and thus incurred net losses. At the end of last year, problem loans totaled 1.2 billion Kuwaiti dinars ($4.14 billion), half of which were unsecured. This led the bank to estimate that 500 million Kuwaiti dinars were needed to bail out banks.

Its recent plan for the settlement and rescheduling process to extend over a 10- to 15-year period suggested a much higher figure for government support for the banks.

The Saudi banks' performance last year, as shown by the banks' year-end figures, along with the lingering case of the Saudi Cairo Bank, are increasing the pressure on the Saudi Arabian Monetary Agency to raise its profile.

The profitability of Saudi banks fell by an average of 80 percent to 90 percent, while bad and nonperforming loans accounted for one-quarter of their exposure. These results were particularly discouraging for foreign partners, most of whom have not received dividends and whose contracts with Saudi partners are currently being renegotiated.

Foreign bankers operating in the kingdom complain about the difficulty of seizing collateral in defaulting cases, but they say that the strengthening of the Saudi Arabian Monetary Agency's arbitration board has given them hope that the problem of Islamic law court rulings against the payment of interest can be overcome. They also say that the Saudi Arabian Monetary Agency is enforcing the practice started last year of banks regularly reporting nonperforming loans to it.

> The Saudi Arabian Monetary Agency's role in rescuing Saudi Cairo Bank has inspired confidence in the banking community.

The Saudi Arabian Monetary Agency's role in rescuing Saudi Cairo Bank, they say, has inspired confidence in the banking community, which has been haunted by the prospect of a shake-up. The agency has saved the bank, all of whose revenues were transferred into provisions last year, by placing a no-interest deposit with it pending a management reorganization operation.

Banque du Caire, the Egyptian partners in the bank, are being sued for alleged mismanagement and are being held responsible for losses incurred by the bank on speculative trading in metals.

The United Arab Emirates Central Bank has been closely monitoring the banks' performance and has recommended improving provisions for bad loans. These loans amounted to one-quarter of facilities provided by banks in the country.

Central bank officials said that the banks had made provisions covering 7 billion out of 10 billion U.A.E. dirhams in nonperforming loans. The authorities are concerned that further bankruptcies and defaulting cases will affect the smaller banks in the overbanked Gulf state. Their experience in the lingering settlement of debts owed by the Dubai trading house A.R.E. Galadari Brothers, amounting to about $300 million, seemed to warrant their concern.

The United Arab Emirates Central Bank, along with the government of Dubai, have intervened to prevent the Dubai-based Union Bank of the Middle East, one of the Galadari Brothers largest creditors, from becoming insolvent as a result of the long-standing debt settlement efforts. Bahrain-based offshore banks embroiled in the case include major institutions such as Citibank, which is heading a syndicate forcing these banks' claims.

Despite the slowdown, the wave of defaulting scandals that have plagued banks operating in Egypt over the last three years seems to have subsided, and banks have grown increasingly conservative in their lending.

The change was justified by the high ratio of unsecured loans and the volume of nonperforming loans reaching one-fifth of the total last spring, according to central bank statistics. The trend was reinforced by the Central Bank of Egypt's recent upgrading of its supervisory capabilities. The bank has also made it mandatory for all banks to report monthly to its risk-assessment body on the status of facilities extended to clients.

هكذا من الأصل

Key Commercial Banks Join Global 'Big League'

By Rami G. Khouri

AMMAN — for the past three years, Arab commercial banks have sought to weather the regional economic downturn by diversifying into fee-earning, investment banking services, and in the case of some large banks, by expanding internationally.

This gradual transformation of the character of Arab commercial banking has taken place in a low-key manner, and in the process has catapulted a handful of large Arab commercial banks into the big league of global banking.

The post-1983 decline in oil production and prices triggered a regional recession that has sent Arab commercial bankers searching for new strategies to compensate for the sudden dearth of good lending opportunities.

Besides the domestic recession, Arab bankers must also adjust to the deregulated global financial market's shift away from classical deposit-taking and lending work, in favor of the securitization of debt and an emphasis on devising new fee-generating investment services for corporate and individual clients.

While most Arab banks remain essentially inward-looking domestic banks, a few, such as the National Bank of Bahrain, Bank al-Mashrek or Jordan National Bank, are profitable regional banks that operate around the Middle East but do not aspire to further horizons.

The real change in Arab banking, however, is to be seen in a handful of big, sophisticated and globally spread Arab banks. These include, most notably, the Arab Bank (Jordan), the National Bank of Kuwait (NBK) and the Bahrain-based Arab Banking Corporation (ABC) and Gulf International Bank (GIB).

Others that may join these big four include the National Commercial Bank (Saudi Arabia), and two Europe-based consortium banks, Union de Banques Arabes and Françaises (UBAF) and Banque Arabe Internationale d'Investissement (BAII).

The attributes that separate these from the hundreds of other Arab banks and financial companies include their large size in terms of assets/deposits and equity base. ABC started this year with assets of $13 billion, Arab Bank with $11.7 billion, National Commercial Bank with $15 billion and NBK with $9 billion.

They have the ability to transcend traditional commercial banking business and offer clients the very latest, most sophisticated or simply trendiest financial services, such as currency swaps, foreign exchange and portfolio management, forward deals, options, expertise in merger and acquisition or leveraged buyouts, securities dealings and underwriting, private banking services, or a seemingly endless variety of option-laden corporate bonds and notes.

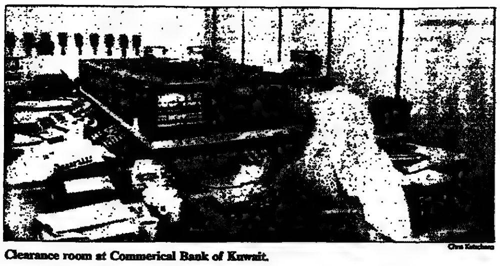
As such, this handful of Arab banks has served notice of an intent to become "universal banks," providing large corporate clients and high net worth individuals with a full range of commercial, personal, retail, corporate and merchant banking services.

Tewfick al-Khalil, senior manager of Arab Bank's international division, said: "The recession of the early 1980s speeded up our expansion abroad to offset declining opportunities in the Arab world, and subsequently we found that our presence in the world's financial centers in turn speeded up our expansion into money market activities and merchant banking."

About half of Arab Bank's business is in Jordan and the rest of the Arab world, with the other half generated abroad. About a third of its profits today come from fee-generated, merchant banking operations.

A similar situation exists at NBK, which in the late 1970s began its long-range international expansion.

NBK's general manager, Nemeh Sabbagh, suggests that management quality and stability will be the principal factors determining how well the Arab banks do abroad. "The challenge that will face Arab bank managers in a fundamentally very different international banking environment and an unfavorable home market will require thoughtful long-term planning and a realistic assessment of their raison d'être and role in the new environment."



Chris Kutschera

Clearance room at Commerical Bank of Kuwait.

Islamic Banks Form Financial Network

AMMAN — Faith and finance, long viewed by Western commercial bankers as uneasy partners, have joined hands during the past decade to lay the groundwork for what may emerge in the next decade as a global financial network based on Islamic tenets.

Although short-lived Islamic banks were established in Pakistan and Egypt in the 1950s and 1960s, it was only during 1975-1983 that two dozen Islamic banks were established throughout the Islamic world. The impetus for the revival of a financial system that was first articulated by the Prophet Mohammed 14 centuries ago was the combination of the Arab world's cash surpluses after 1974 and a widespread grassroots dissatisfaction with the rigid, interest-based commercial banking systems that dominated Islamic societies.

The Islamic ethic believes that the productive human effort and risk element inherent in any business venture should take precedence over its purely financial dimension, and that borrowers, lenders and the banks that intermediate between them should all share the risk, profit or loss of business venture or trade transaction.

The brisk growth of deposits at the score of Islamic banks established in the late 1970s confirmed that billions of dollars of private savings were being stored at home by people who objected on religious grounds to opening interest-bearing bank accounts.

The nine-year-old Faisal Islamic Bank of Egypt has $1.2 billion of savings deposits from 1.2 million clients, to top the domestic banks table. In just six years of business, the Jordan Islamic Bank for Finance and Investment has become Jordan's fourth largest bank in terms of deposits, with over $320 million worth. The eight-year-old Kuwait Finance House was so flush with deposits last year — over $2 billion — that it stopped accepting new investment deposits because of a lack of profitable investment outlets.

Rami G. Khouri

Banks

	Assets	Loans	Earnings
	billion	billion	million
1. Arab Banking Corp., Manama	$13.0	$5.1	$109
2. Riyad Bank, Jeddah***	$ 8.7	$2.9	$50.5
3. Banque du Credit & Commerce Int'l Holdings, Luxembourg*	$16.6	$6.8	$59(+)
4. National Commercial Bank, Jeddah**	$15.1	$5.7	$27
5. Gulf International Bank, Manama	$ 7.8	$4.2	$67
6. National Bank of Kuwait	$ 8.9	$4.0	$80
7. Al-UBAF, Paris	$11.5	$4.9	n.a.
8. Arab Bank, Amman	$13.5	$2.7	$75
9. National Bank of Abu Dhabi	$ 5.6	$2.8	$ 3.4
10. Saudi International Bank*	$ 4.4	$1.8	$16

Sources: Annual reports and Capital Intelligence.
*Arab majority owned.
**Calendar year ending September 1986.
***Calendar year ending March 1986.
(+) Profit after $150 million "shareholder subvention" due to option trading losses. Without infusion, net loss for year of $ 91 million.

The Higher the Climb, the Harder the Financial Fall

Continued from page 9

ular regional market or product niches. Kuwait Asia Bank, for instance, has made a success with its penetration of the Pacific Basin, Investcorp has done so as a deal-cutting investment bank, or the Al-Mal Group, as a Eurobond underwriter.

For many of the financial institutions in the middle, they are either collapsing the reach of their operations to either a purely domestic role or a marginal international role, or rapidly becoming "end users" to the investment products and loans churned out by the more nimble and adept Western banks.

The shakeout has forced most of the banks into a soul-searching management reappraisal in both strategic and tactical thinking. United Gulf Bank, for instance, dramatically sold off the bulk of its loan assets or wrote them off and made a foray into investment banking as the solution to its dilemma. NBK recognized the inevitable, and like even the Eurobond giants such as Deutsche Bank and UBS Securities, moved its marketable securities operations to London.

Investment banking has indeed become the new catch phrase throughout the Gulf, and some success has been made to date. ABC and GIB, along with the three main investment companies in Kuwait, have developed a strong regional role as underwriters and co-managers in the Eurobond market, and several Arab banks have slowly built respectable securities trading divisions. NCB and GIB have fairly successful mutual fund operations for smaller investors. ABC has advised on several takeover bids in London, and is active in the German capital markets through its Frankfurt subsidiary.

But for the most part, the capital markets have proven to be a much tougher nut to crack than the supremely easier syndicated-loan market, which mostly required a lot of travel and a telex machine.

For one, has there ever been much of a corporate and institutional base in the Arab world to underpin a push into securities underwriting or fund management? For another, Arab surplus capital never really flowed through the Arab intermediaries, but to the Swiss banks and private banking units of American banks.

The great trading families such as Kuwait's al-Ghanims, or recently created corporate entities such as Saudi Arabia's Olayan Group, have traditionally been the most flush with surplus capital, but they have also been more conservative in their investments and more often than not, have more savvy and sophisticated investment managers working for them than most of the banks could ever hope to offer. Furthermore, the mostly family-run corporate and trading companies are not the sort of fertile ground for mergers activities.

"The Arab banks, for the most part, cannot get into the center of things, but they can muscle in on the edges and hope to build up, say, some sort of niche specialty in London," said Mr. Habib of Capital Intelligence.

Perhaps where the Arab banks will continue to focus much of their management skills is in the more mundane internal reorganization. Cutting costs and overheads, building internal controls and credit assessment and control policies, and nurturing middle-level management skills to bring key decision-making as close to the market as possible, providing new products and services such as loan workouts, "preventive rescheduling," or information services and analysis for corporate clients on cash flow projections are not the stuff headlines are made of.

Perhaps the one notable trend among the commercial banks this year has been the tendency to sharply tighten up their loan review policies and demand greater security on their loans, and thus reduce the proportion of loans that are uncollateralized.

There is also a generation of 25-to-30-year-old Arab bankers coming into the system, who fortunately, just missed the gravy train, and thus lack the pretentions and fear of hard work, the expectations of fat salaries and rapid rises to the top that their older brothers may have had.

New markets will also eventually emerge in the region, creating opportunities for the institutions that are prepared. Eventually governments will effectively overcome or at least neutralize cultural resistance to borrowing, and begin to tap a domestic and regional capital market, and by doing so, help create and deepen one. To date, only Oman has borrowed and it has turned to the Euromarkets rather than through issuing government debt.

Likewise, the governments will eventually ease out of heavily subsidizing housing, leaving it entirely to the private sector. Home mortgages will eventually come to the Gulf, and a younger generation of Arab newlyweds will discover the realities of monthly mortgage payments like the rest of the world.

Despite the withdrawal by scores of international banks in Bahrain, the region is not a total credit risk write-off. "Maybe 10 customers go wrong in Saudi Arabia," says one British banker in Bahrain. "But as a percentage of the whole country that is quite small. You can't just go and write off the whole country."

But there is, nevertheless, a fundamental structural problem obscuring the further development of the region's, and particularly Saudi Arabia's, banking system. A legal system for recourse on repayment disputes must be established, bankers and borrowers both stress, and government officials concede.

Lending in the kingdom, for one, has virtually ground to a halt. Due both to the absence of viable lending opportunities, but exasperated by the deterioration in commercial ethics and the lack of recourse in event of default, the consolidated lending of the dozen commercial banks rose barely 1 percent last year, the smallest increase in several decades. Saudi American, for instance, ran down its loan portfolio by 12 percent in 1985.

The Saudi central bank, the Saudi Arabian Monetary Agency, made the first efforts after years of pleas of frustration from the banking community to do something to resolve the dilemma. Future loans will include a clause binding a borrower to go before SAMA's recently created arbitration board in a dispute over repayment of debt, hopefully defusing the sensitivity of the "religious question" by steering disputes away from the Shariah courts, whose judges tend to hold little regard for the banks.

But ultimately, the problem of reconciling a Western-style banking system to the religious core of Saudi society is beyond the scope of either SAMA or the Ministry of Finance and lies with the very highest echelons of power in Riyadh, which to date, has not been forthcoming.

International Bond Prices

(Continued)

SOUTH AMERICA

SPAIN

SUPRANATIONAL

SWEDEN

SWITZERLAND

UNITED KINGDOM

UNITED STATES AMERICA

EURO CURRENCY UNITS

CANADIAN DOLLARS

FRENCH FRANCS

JAPANESE YEN (EURO)

NORWAY KRONERS

POUNDS STERLING

NASDAQ National List

OTC consolidated trading for week ended Friday.

Treasury Bonds

Sept. 26

Maturity	Close Bid	Ask	Yield	Wk.-ago yield
31.7.88	99 30/32	100	6.39	6.47
15.5.89	99 27/32	99 29/32	6.67	6.74
30.6.90	99 15/32	99 17/32	6.89	7.02
11.15.91	97 29/32	97 31/32	6.98	7.08
15.7.93	99 25/32	99 27/32	7.28	7.44
15.5.96	99 10/32	99 13/32	7.46	7.64
15.2.06	113	113 3/32	8.04	8.23
15.5.16	95 10/32	95 11/32	7.63	7.82

Source: Salomon Inc.

Certain offerings of securities, financial services or interests in real estate published in this newspaper are not authorized in certain jurisdictions in which the International Herald Tribune is distributed, including the United States of America, and do not constitute offerings of securities, services or interests in these jurisdictions. The International Herald Tribune assumes no responsibility whatsoever for any advertisements for offerings of any kind.

Wall Street Review

AMEX Most Actives

NYSE Most Actives

AMEX Sales

NYSE Sales

AMEX Diaries

NYSE Diaries

CONVERTIBLE BONDS

Sept. 25

EUROPE

JAPAN

MISCELLANEOUS

UNITED STATES AMERICA

HIGHEST CURRENT YIELDS

On convertibles having a conversion premium of less than 10%.

Explanation of Symbols

Can$	Canadian Dollar	SDR	Special Drawing Rights
ECU	European Currency Unit	Y	Yen
EUA	European Unit of Account	LFR	Luxembourg Franc
L	Pound Sterling	SFR	Swiss Franc
DM	Deutsche Mark	FF	French Franc
NKR	Norwegian Kroner - DM		

EUROBONDS

Libya's Sale of Fiat Shares Is Criticized by Bankers

By CARL GEWIRTZ
International Herald Tribune

PARIS — The initial enthusiasm of banks to underwrite the record block trade in Fiat shares sold by Libya last Wednesday waned quickly as banks became aware that an unstated key aim of the transaction is to keep as much of the $2.1-billion repurchase price as possible, for as long as possible, out of Italy's pocket.

In effect, some underwriters charge that they have unwittingly bought a second-class type of Fiat stock which — unlike other so-called Euro-equities — is designed, at least for a while, to remain distinct from the pool of stock traded in the domestic market.

For Italy, keeping these shares out of the home market means that domestic investors will not wind up paying for the Libyan shares, preventing a capital outflow that would depress the value of the lira. For Fiat, isolating the Libyan shares removes a huge overhang of stock that otherwise could severely depress the value of the shares quoted on the Milan stock exchange.

In bankers' jargon, this "lack of fungibility" between the international and domestic shares results in "impaired marketability" because investors have no assurance that a liquid international market will always be available to absorb whatever holdings they may want to sell. Whether this criticism is fair is a moot point. Deutsche Bank AG, which arranged the international placement, and Shearson-Lehman Bros. Inc., among the co-underwriters, say they will maintain a market, with prices quoted in dollars, assuring liquidity.

In addition, Italian investors would be expected to buy the international shares if the price fell below the level quoted in Milan. And finally, the technicality separating the international shares from the domestic securities is not permanent.

The technicality is that while investors must pay for their purchases on Oct. 7, no date has yet been set for when they will actually be able to physically acquire the shares they have bought.

The international distribution — denominated in dollars — is being handled like a Euro-equity via the distribution network of the Eurobond market. Mediobanca in Italy underwrote $500 million, to be sold to Italian institutional investors, and Deutsche Bank bought $1.6 billion of which it kept $600 million. The remaining $1 billion was resold to 10 co-managers who were each left with $70 million to sell after syndication to sub-underwriters.

EVIDENCE of ownership of these securities will be deposited with the clearing systems used in the Eurobond market, Euroclear and Cedel, and international trading will be recorded through paperless bookkeeping entries at the clearing systems.

Deutsche Bank has so far given no indication when this global ownership certificate will be replaced with actual shares. But without the actual shares, the securities cannot be traded on the Milan stock exchange since physical delivery of the certificates is required to complete transactions there.

Clearly the goal is to have developed an international market in Fiat securities by the time the share certificates are available so that there will be no rush to dump the paper on the domestic market. Given the exceeding long delay in settling transactions on the Milan exchange, foreign investors should welcome the opportunity to trade the stock via the automated Euromarket clearing systems.

But underwriters criticize Deutsche Bank for failing to inform them of the technicality on the share certificates during the few hours they were given to accept the underwriting invitation. They argue that the impaired marketability, however temporary, would be more tolerable if investors had been compensated for it.

In this view, the price of the shares should have been set at a larger discount to the prices then prevailing on the Milan stock exchange. The shares were actually priced at a 4-percent discount.

Further, the critics argue, a wider discount would have facilitated placing such a huge volume of securities and would have given underwriters (who were paid a 4-percent commission) more of a cushion against unfavorable price movements during the offering period.

The decision to price the securities in dollars rather than lire is also criticized. The value of the shares was set on Wednesday but payment is almost two weeks later, meaning that Libya shifted the entire risk — the value of the securities as well as the exchange rate — to the purchasers. (Libya insisted on being paid in dollars rather than lire.)

If the dollar appreciates against the lira before the Oct. 7

See EUROBONDS, Page 17

Eurobond Yields

For Week Ended Sept. 24

U.S.$ lg term, int'l inst.	8.47 %
U.S.$ long term, ind.	8.63 %
U.S.$ medium term, ind.	8.46 %
Can.$ medium term	9.83 %
Aus.$ medium term	13.90 %
French Fr. short term	8.21 %
Sterling medium term	10.63 %
Yen medium term, int'l inst.	5.78 %
Yen lg term, int'l inst.	6.05 %
NZ$ short term	17.23 %
ECU short term	7.70 %
ECU medium term	8.11 %
ECU long term	8.85 %

Calculated by the Luxembourg Stock Exchange.

Market Turnover

For Week Ended Sept. 26
(Millions of U.S. Dollars)

	Total	Dollar	Non-dollar Equivalent
Cedel	32,433.20	19,295.20	13,138.00
Euroclear	71,323.20	54,164.80	17,158.40

Banks Set Condition For Peru

Say 'Meaningful' Payment Needed

Compiled by Our Staff From Dispatches

WASHINGTON — Commercial banks have told Peru that it must make "meaningful" payments on its $630 million in overdue interest before they will resume debt-restructuring negotiations, Citibank officials said.

In a statement released Saturday in New York, Citibank said a committee of commercial banks met Friday with Gustavo Saberbein, Peru's chief debt negotiator, who said his country "was anxious to resume serious negotiations" on its $13.7-billion foreign debt.

Except for a token $17.7-million payment in April, Peru has not paid any interest or principal to private banks since President Alan García Pérez took office in 1985. It recently made a payment to the International Monetary Fund, but not enough to stop the fund from suspending further loans.

Bank officials Saturday said privately they are considering dissolving the committee that negotiates on behalf of Peru's several hundred bank lenders. That would leave individual banks free to take Peru to court and try to attach Peruvian assets anywhere in the world.

Mr. Saberbein invited economic experts from the banks to visit Lima soon to study developments in the country as a first step toward resuming negotiations "on a serious basis." But he added that Peru is still unable to meet the banks' demand that it make "a meaningful payment" on interest arrears.

Largely because it has not been paying its foreign debt, Peru has accumulated an estimated $1.2 billion in treasury reserves.

In a related development, Peru said Saturday that it would its currency early next year and that teachers, bureaucrats and non-union workers in private industry will get an immediate pay raise.

Mr. García told newspapers in Lima that after Dec. 31, the government would not be able to continue to support the exchange rate for the currency, the inti, now set at 13.96 to the dollar.

(UPI, WP, AP)

Honeywell Gives Up on Computers

With NEC-Bull Pact, It Admits Defeat to IBM

By David E. Sanger
New York Times Service

NEW YORK — Honeywell Corp. conceded last week what many computer industry experts have said for years: It cannot compete with IBM.

After two weeks of intense stock market rumors, Honeywell said it was negotiating with NEC Corp. of Japan and Cie. des Machines Bull, France's government-owned computer maker, to take a large stake in Honeywell's languishing computer operations.

NEC and Bull have close technological ties to the Minneapolis-based Honeywell, whose other operations include making military equipment and control devices for homes and commercial buildings.

The announcement appears to mark Honeywell's virtual withdrawal from the computer business after years of watching its share of the mainframe market shrink and seeing its efforts to enter the office-automation business go awry.

While Honeywell released no details of what changes are in store, they seemed certain to include surrendering control of the Information Systems division, which accounted for nearly a third of the company's $6.6 billion in revenues last year.

Honeywell's top executives, who have been unavailable for comment since rumors about the company began circulating two weeks ago, did not return telephone calls last week. One company official, however, who asked not to be named, said simply: "We can't deal with computers anymore. We just want out."

The development accelerates the biggest computer industry consolidation since RCA Corp. quit the business in the late 1960s and General Electric Co. sold its mainframe computer technology to Honeywell in 1970.

In May, Burroughs Corp. acquired Sperry Corp., a combination that created the world's second-largest computer company, surpassed only by International Business Machines Corp. Many experts speculate that Control Data Corp., a Honeywell rival in Minneapolis, may be the next computer maker forced out of the mainstream of the business.

Analysts doubted that Honeywell would receive more than a token payment for the stake in its computer division, whose chief attractions are its marketing and service operations. But they said the match seemed appropriate, noting that Honeywell, NEC and Bull have long exchanged technology.

"The common ingredient here is that the computer architectures are very close," said Thomas J. Crotty, president of Gartner Securities, part of Gartner Group in Stamford, Connecticut, which follows the industry. "Integrating these computer lines is a whole lot less difficult than integrating Sperry and Burroughs," which have incompatible computer lines.

The exact nature of Honeywell's plans was still not known late last week. All three companies approved the wording of a vague announcement, issued by Honeywell on Wednesday, stating their intention to negotiate. In Minneapolis, Kathy H. Tunheim, a Honeywell spokesman, said, "We hope for an agreement by year's end."

But NEC and Bull said they had heard nothing specific. "We still do not have a concrete idea from Honeywell," said Koichi Shimbo, a spokesman for NEC in New York. In Paris, a spokesman for Bull, named for the Norwegian inventor Fredrik R. Bull, a pioneer in the development of statistical processors, said talks were "very preliminary."

Honeywell's stock closed Friday at $72.375 on the New York Stock Exchange, up $2.375 for the day and $1.625 for the week.

Most of the benefits of a Honeywell-NEC-Bull consortium,

See COMPUTE, Page 19

Honeywell's MK46 torpedo, top left, and a university computer system, top right. Washington's Renaissance Center, at left, has Honeywell control system. The Delta 1000 security system is to be used at the Olympics.

The New York Times

Officials Warn Lack of Accord May Hurt Dollar

By Hobart Rowen
Washington Post Service

WASHINGTON — Failure of the world's key finance ministers to agree over the weekend on lower interest rates or to stabilize foreign-exchange rates could cause a sharp fall in the dollar when markets open Monday, senior officials warned Sunday.

Before an inconclusive daylong session of the International Monetary Fund's policy-making board, the Interim Committee, a leading European minister predicted that central banks in Europe and Japan are prepared to intervene to stop a sharp decline in the dollar.

The International Monetary Fund revised downward world growth estimates. Page 19.

"If there is turbulence in the markets pushing the German mark sharply higher, the Bundesbank will have to intervene," another official said.

So far as could be determined Sunday, the United States has no plans to join in any effort to stop a dollar slide.

A communiqué issued Saturday by the Group of Seven finance ministers meeting in Washington acknowledged that the basic argument over economic policies continued. Financial experts said that despite the communiqué's assurances on the need for policy coordination, major nations had reached a negotiating impasse.

"Not only was there no agreement in the G-7 meeting and the Group of Five session that preceded it," a central banker said Sunday, "there was no real discussion."

Meeting separately, the ministers of the Group of 24, who represent poor countries within the IMF, expressed disappointment over the continued sluggish performance of the global economy. They reiterated demands for greater financial help from the rich countries.

Attention refocused Sunday on apparent deadlock on a proposed $12-billion aid package for Mexico.

It was learned that the Mexicans are pressing commercial banks — asked to put up $6 billion in new loans — for a reduction in interest rate spreads on the $6 billion and the existing stock of about $50 billion of commercial bank loans to Mexico.

"We all understand that in the next few days, we must deal with the Third World debt problem," Finance Minister Gerhard Stoltenberg of West Germany said at a news conference.

"We are all aware that it makes no sense to have a confrontation [among the major powers] at a time when coordination is absolutely necessary to handle the [Third World] debt problem," he added.

He said that Paul A. Volcker, the chairman of the U.S. Federal Reserve, who is involved in the negotiations between the Mexican government and commercial banks, had stressed the difficulty of reaching an accord at Friday's G-5 meeting.

Mr. Stoltenberg, while stressing that there had been "a good discussion without confrontation" in the meetings of the G-5 and G-7, conceded that U.S. policy priorities differ from Europeans' objectives.

The G-5 includes the United States, Japan, West Germany, France and Britain. The G-7 embraces these five, plus Canada and Italy.

The chief U.S. priority, Mr. Stoltenberg said, is to reduce the U.S. trade deficit. Treasury Secretary James A. Baker 3d has pressed West Germany and Japan to expand their economies.

Anderson Takes Quaker's Bid

Reuters

HOUSTON — Anderson, Clayton & Co., a food producer, announced Sunday that it had signed an agreement for its acquisition by Quaker Oats Co. for $812 million.

Quaker, which topped a $64-a-share proposal from Ralston Purina Co., was expected to begin a $66-a-share cash offer on Tuesday or Wednesday.

Ralston had no comment.

Spain to Pay More to EC In 1986 Than It Gets

By Youssef Azmeh
Reuters

BRUSSELS — Spain is likely to emerge as a net contributor to the European Community budget in its first year of membership, despite assurances to the contrary, raising the prospect of a fight over EC benefits similar to the British budget battle that disrupted community operations for years.

In that battle, which came to a head in 1984, Britain contended that its contribution to the budget was too large, and demanded rebates. The issue caused much bitterness among EC members.

EC officials say that Spain's contribution to the community this year is likely to exceed withdrawals by 100 million to 200 million European currency units ($98 million to $196 million).

The situation is especially nettlesome to Spain because it comes on top of a reversal of its trade balance with the 10 EC members excluding Portugal from a surplus of 671 million ECU in the first half of 1985 to a deficit of 609 million ECU in the first six months of this year.

"In our rush to reach compromise agreement, we simply failed to get the numbers right," a senior EC official said, referring to the financial arrangements for EC membership fixed in the final hectic stages of negotiations last year. Spain and Portugal joined the community on Jan. 1, bringing total membership to 12.

EC diplomats said the problems could further embarrass Prime Minister Felipe González — whose government had a hard time selling EC membership to voters — and would harden Madrid's attitudes in any negotiations within the community.

EC officials said their worries center mainly on Mr. González's pledge to his country that Spain, as one of the poorer EC members, would never be a net contributor to the EC budget.

His pledge was based on EC promises that Spain would not have to pay more into community coffers than it could get out of them.

EC officials say now that their statement was not meant as a water-tight pledge that Spain would never have a budget deficit in any single year. But they add that Spaniards seem unwilling to accept this explanation.

"We were shocked when officials and parliamentarians from Madrid told us that this was how the deal was sold by the government," one official said. "They have dug us and themselves into a difficult hole."

Experts in the EC Commission say the main budget problem results from Spain's apparent inability to draw its total share of 527 million ECU from the EC's farm budget this year because of poor organization by Spanish regional and rural agricultural groups.

Madrid's EC budget balance will be helped by the sharp fall in the value of the U.S. dollar, which cut Spain's total import bill and consequently reduced the customs duties levied, part of which it must pay to the community.

EC officials say this could amount to a cut of about 300 million ECU in its forecast payments to the EC.

But they estimated that, taking all these factors together, Madrid would end up 100 million to 200 million ECU in the red this year.

Since Spain probably will make up for the deficit in coming years, experts said the deficit would not have been a problem were it not for Mr. González's pledge and the added complication of the sharp turnaround in trade with the community.

U.S. Tool Orders Reportedly Fell 9.3% in August

New York Times Service

NEW YORK — New orders for U.S. machine tools dropped 9.3 percent in August from July's level, according to a report to be released Monday by the National Machine Tool Builders Association.

The group attributed the decline to companies delaying orders until after a trade show in early September.

Industry analysts also cited the sluggish economy and confusion surrounding the effects of the just-passed tax revision bill on capital spending.

Machine tools are power-driven devices used to shape most metal parts, from tractor gears to vacuum cleaner motors. Their sales are an important indicator of capital spending by producers of metal products, mainly the automobile, aerospace and manufacturing industries.

The trade association said new orders for machine tools dropped to $154.3 million, from $170 million in July. Orders fell 16.4 percent from August 1985. For the first eight months of 1986, new orders were down 12.2 percent from the comparable 1985 period.

Last Week's Markets

All figures are as of close of trading Friday

Stock Indexes

United States	Sept. 26	Sept. 19	Ch'ge
DJ Indus.	1,769.69	1,762.51	+ 0.41 %
DJ Util.	201.75	201.09	+ 0.33 %
DJ Trans.	784.25	780.13	+ 0.53 %
S & P 100	217.79	220.88	— 0.50 %
S & P 500	232.23	232.20	+ 0.01 %
S & P Ind	256.68	257.07	— 0.15 %
NYSE Co	133.94	133.49	+ 0.34 %
Britain			
FTSE 100	1,563.70	1,600.10	— 2.33 %
FT 30	1,238.40	1,269.10	— 2.48 %
Japan			
Nikkei 225	17,960.98	17,523.45	+ 2.50 %
West Germany			
Commerzbk.	1,985.10	1,964.30	+ 1.06 %
Hong Kong			
Hang Seng	2,034.36	1,925.82	+ 5.64 %

Money Rates

United States	Sept. 26	Sept. 19
Discount rate	5½	5½
Federal funds rate	5¾	5⅝
Prime rate	7½	7½
Japan		
Discount	3½	3½
Call money	4⅝	4⅝
2-month interbank	4 13/16	4⅝
West Germany		
Lombard	5½	5½
Overnight	4.35	4.45
3-month interbank	4.60	4.55
Britain		
Bank base rate	10	10
Call money	9⅝	9
3-month interbank	10⅛	10 1/16

Dollar	Sept. 26	Sept. 19	Ch'ge
Bk Engl Index	—	n.a.	— %
Gold			
London p.m. fix $	433.00	419.50	+ 3.22 %

Currency Rates

Cross Rates

Sept. 26

	$	£	D.M.	F.F.	I.L.	Gldr.	B.F.	S.F.	Yen
Amsterdam	2.312	3.319	112.85 *	34.495 *	0.1636 *	—	5.482 *	139.57 *	1.4970 y
Brussels(a)	42.37	60.83	20.735	6.3305	2.999 *	18.3445	—	25.6105	27.485 *
Frankfurt	2.0413	2.933	—	30.57 *	1.446 x	88.445 *	4.824 *	120.42 *	1.324 *
London(b)	1.4375	—	2.9408	9.6365	2,034.50	3.325	60.57	2.3868	221.84
Milan	1,411.60	2,080.50	691.45	211.00	—	611.70	33.364	854.20	9.161
New York(c)	—	0.6957 ≠	2.053	6.7255	1,419.50	2.3195	42.555	1.6665	154.65
Paris	6.694	9.480	3.276	—	4.737 x	2.90	15.504 *	4.045	4.3305 *
Tokyo	154.79	221.35	75.54	22.88	10.94 *	66.84	365.03 *	93.36	—
Zurich	1.6552	2.3795	81.085 *	24.78 *	0.1172 *	71.725 *	3.917 *	—	1.0761 *
1 ECU	1.0286	0.7067	2.0851	6.8553	1,446.97	2.3456	43.2882	1.6902	157.972
1 SDR	1.20761	0.84075	2.46580	8.06374	1,710.87	2.782	51.1966	1.996	184.636

Closings in London and Zurich, fixings in other European centers. New York rates at 4 P.M. (a) Commercial franc (b) Amounts needed to buy one pound (c) Amounts needed to buy one dollar (*) Units of 100 (x) Units of 1,000 (y) Units of 10,000 N.Q.: not quoted; N.A.: not available. (≠) To buy one pound: $US1.4365

Other Dollar Values

Currency	per U.S.$	Currency	per U.S.$	Currency	per U.S.$	Currency	per U.S.$
Argent. austral	1.05	Fin. markka	4.945	Mex. peso	755.00	Soviet ruble	0.6771
Austral. $	1.5949	Greek drac.	136.20	Norw. krone	7.41	Span. peseta	134.75
Austr. schil.	14.41	Hong Kong $	7.802	Phil. peso	20.25	Swed. krona	6.9425
Belg. fin. fr.	42.44	Indian rupee	12.77	Port. escudo	147.80	Taiwan $	36.74
Brazil cruz.	13.77	Indo. rupiah	1,630.00	Saudi riyal	3.7507	Thai baht	26.095
Canadian $	1.3895	Irish £	0.7457	Sing. $	2.172	Turkish lira	668.40
Chinese yuan	3.7143	Israeli shek.	1.466	S. Afr. rand	2.2321	UAE dirham	3.6727
Danish krone	7.7125	Kuwaiti dinar	0.2929	S. Kor. won	876.20	Venez. boliv.	20.20
Egypt. pound	1.35	Malay. ring.	2.6266				

£ Sterling: 1.0733 Irish £

Sources: Banque du Benelux (Brussels); Banca Commerciale Italiana (Milan); Banque Nationale de Paris (Paris); Bank of Tokyo (Tokyo); IMF (SDR); BAII (dinar, riyal, dirham); Gosbank (ruble). Other data from Reuters and AP.

NASDAQ National Market

OTC Consolidated trading for week ended Friday.

			Sales in 100s	High	Low	Close	Net Ch'ge
A							
ABS	.60	3.4	292	18½	17½	17½	—1
ADC s			865	19¾	18	18½	— ¼
AEC	.32	3.0	19	11¼	10¾	10¾	— ½
AEL			649	11	10¾	11	+ ¼
AEP			295	10	8¾	8¾	— ½
AIFS			127	8	7½	8	+ ¼
AIM Tel			421	4¼	3⅝	4¼	+ ¼
ALC Cm			543	4⅛	3⅞	4	— ⅛
ARC Int			391	3⅞	3⅝	3⅞	— ⅛
ASK			3217	10⅞	10¼	10⅝	+ ½
AST			3335	12⅞	10¾	12⅞	+2¼
AT&E			3988	21	18	18¾	—1¼
ATE			61	6⅝	6⅛	6⅛	
ATI			189	5¼	5	5¼	
AW A			247	4⅛	4	4⅛	
AarnRt			1002	18	17	18	
Abrams	.24	3.4	480	7½	7	7	+ ¼
AcuJoe			2074	3	2¾	3	+ ⅛
Acadin			1501	2⅝	2⅜	2½	
Acelrin	t		234	9⅛	8¾	8⅞	— ¼
AcuRay	.28	1.7	588	17½	16½	16¾	+ ⅛
Aceto	.14r	.8	149	18½	18	18½	
ACMAT			196	15¾	14	15¼	+2¼
AcmeSt			411	8⅛	7⅞	7⅞	— ¼
Activsn			4550	1½	1¼	1⅜	+ ⅛
Actmed			934	26½	24¾	26	+1¼
Acusn			3975	9½	8½	8¾	— ¼
AdacLb			3048	1⅞	1⅝	1⅞	+ ⅛
Adage			2164	2½	2	2⅜	+ ¼
AdRsEl			1909	18¾	18	18½	
AdisnW	.90	2.6	16	35½	34½	34½	— ½
Adia s			262	14½	12½	14	+1½
Admac			424	3⅝	3⅜	3⅜	— ¼
AdvCir			1834	4⅛	3½	3¾	— ⅛
[illegible]							
Andros			616	9¼	7⅞	9	+ ¾
Animed			1843	5	4⅜	4⅞	+ ¼
Anitec	.40	1.6	3922	27¼	25½	25½	—1¼
Apogee s			2580	11⅝	8⅞	9¼	—1½
ApoloC			19121	13	11½	12¾	+ ⅜
ApplBk			2013	24⅝	23	23⅞	+ ¼
AppleC			45242	36⅝	33½	34¾	+ ⅜
ApldBio			1940	36	33¾	34¾	— ½
ApldDt			10	2½	2½	2½	
ApldM s			990	10⅛	8¾	9¼	— ¾
ApldSlr			1421	11	10½	10½	— ¼
ArabSh			81	2¼	1⅞	2	
Archive			385	8½	8⅛	8½	+ ⅜
Arbor			496	18¼	16¾	17	+ ½
Arden			116	27	25¾	27	+1¼
ArgoSy			1844	19	17¾	17¾	—1¼
Artich			621	11½	10½	11½	+1
ArizB	.80b	1.8	653	44¾	44½	44⅝	+ ⅛
Ark Rst			70	7	6	7	
Arnold s	.40	1.1	20	37	36	36	
ArowB s	.96	2.5	22	39	37	39	+4
Artel			279	3⅛	2⅞	3	
Ashton			8439	30⅝	27¾	27⅞	—1⅝
AspenR			480	2⅛	1⅞	2	— ⅛
AsdBnc	.48	2.6	82	19½	18½	18½	— ½
ACmA s			621	25½	23	23¾	+ ¼
ACmB s			115	25¼	23	24½	+ ½
AssdCo	.10e	1.5	28	6⅝	6⅜	6⅝	— ⅜
AsdHst	.12	1.4	324	9	8⅞	8⅞	
Astec			366	12	10¾	12	+1¼
AstroM			177	8⅝	7½	8¾	+1⅛
Astrcm			463	2⅛	2	2¼	
Astron s			106	9¼	8½	9	— ¼
Astrosy			405	8⅛	8	8¼	+ ⅛
Atcor	.48	3.9	1992	12⅝	12	12¼	
Athey s			281	12	10½	10¾	—1¼
[illegible]							

(Continued on next left-hand page)

Mutual Funds

Figures as of close of trading Friday

NEW YORK (AP) — The following quotations, supplied by the National Association of Securities Dealers, Inc., are the prices at which these securities could have been sold (Net Asset Value) or bought (value plus sales charge) Friday.

[illegible]

Chicago Exchange Options

Figures as of close of trading Friday.

[illegible]

New Euro[illegible]

[illegible]

Eurotunnel Syndic[illegible]

[illegible]

EUROBONDS: Sale of [illegible]

[illegible]

هكذا من الأصل

New Eurobond Issues

Compiled by Laurence Desvilettes from information supplied by European bond traders.

Issuer	Amount (millions)	Mat.	Coup. %	Price	Price end week	Terms
FLOATING RATE NOTES						
Belgium	$200	1994	libid	100.20	100.03	Interest will be the 6-month Libid rate with no margin. Callable at par in 1991. Fees 0.15%. Registered notes in denominations of $250,000.
ENI Int'l Bank	$200	1991	libid	100.10	99.98	Interest will be the 3-month Libid rate with no margin. Noncallable. Fees 0.10%. Denominations $10,000.
Overseas Union Bank	$100	2011	⅛	100	99.68	Over 6-month Libor. Redeemable at par in 1996 and 2006 and callable at par in 1991. Fees 0.50%. Denominations $250,000.
Red Nacional de los Ferrocarriles Españoles	$500	1998	libid	100.10	99.88	Interest will be the 6-month Libid rate with no margin. Callable at par in 1989. Fees 0.15%.
FIXED-COUPON						
Belgium	$250	1991	7½	100¼	98.25	Noncallable. Fees 1⅜%. Registered notes in denominations of $250,000.
Compagnie Générale d'Electricité	$100	1991	9	108	—	Noncallable. Fees 1⅞%. Denominations $10,000.
Danish Export Finance	$100	1989	7	100⅝	—	Noncallable. Redemption amount at maturity will be linked to the U.S. Treasury's 7¼% bond due 2016. Fees 1⅜%.
European Investment Bank	$150	1993	7¾	101⅞	98.88	Callable at 101 in 1991. Fees 1⅞%. Denominations $10,000.
Finland	$70	1996	8⅜	104	94.00	Noncallable. Fees 2%. Denominations $100,000.
Fuji Bank & Trust	$100	1991	7⅝	101½	99.13	Noncallable. Fees 1⅞%.
Investors in Industry Int'l	$96	1991	7⅞	101¾	—	Noncallable. Fees 1⅞%. Denominations $10,000.
Metropolis of Tokyo	$200	1996	8¼	101½	99.13	Noncallable. Fees 2%.
Nordic Investment Bank	$150	1991	7½	101⅛	98.63	Noncallable. Also 150,000 five-year warrants, priced at $17½ each, exercisable at par into a 7⅝% bond due 1996. Fees 1⅞%. Warrants ended the week at $23.
Orient Leasing (Caribbean)	$30	1993	10	112¾	—	Noncallable. Fees 1⅞%.
Shimizu Europe	$50	1991	8	101¾	99.13	Noncallable. Fees 1⅞%.
Sumitomo Trust Finance (Hong Kong)	$100	1991	7¾	101¾	99.63	Noncallable. Fees 1⅞%. Denominations $25,000.
Danish Export Finance	DM 150	1991	6	100	99.25	Noncallable. Fees 2%.
Midland Int'l Financial Services	DM 200	1996	6½	100	97.50	Callable at 102 in 1992. Fees 2¼%.
Sweden	FF 400	1991	3¾	100	97.75	Noncallable. Coupon will be 3¾% in first year, then 8%. Redemption amount will be set in Oct. 1987, according to the performance of the Paris CAC stock index between now and then, increasing if index climbs and decreasing if index falls, with a maximum value of 140% of face value and a minimum of 60% of face value. Fees 1⅞%.
Sweden	FF 400	1991	3¾	100	98.00	Noncallable. Coupon will be 3¾% in first year, then 8%. Redemption amount will be set in Oct. 1987, according to the performance of the Paris CAC stock index between now and then, increasing if index falls and decreasing if index climbs, with a maximum value of 140% of face value and a minimum of 60% of face value. Fees 1⅞%.
Skandinaviska Enskilda Banken	DK 300	1991	10¼	100	98.00	Noncallable. Fees 1⅞%.
Montreal Urban Community	C$75	1996	10⅛	101¼	98.38	Noncallable. Fees 2%.
EQUITY-LINKED						
Ebara	$70	1991	open	100	—	Coupon indicated at 3⅝%. Noncallable. Each $5,000 note with one warrant exercisable into company's shares at an expected 2½% premium. Fees 2½%. Terms to be set Oct. 6.
Fisons Finance Netherlands	$50	2001	5¾	100	—	Callable at 104 in 1990. Convertible at 645 pence per share, a 12% premium, and at £1.4475 per dollar. Fees 2½%.
ICN Pharmaceuticals	$65	2001	open	100	—	Semiannual coupon indicated at 6½ to 6⅞%. Redeemable at par in 1993 and callable at 103 in 1989. Convertible at an expected 8 to 10% premium. Fees 2½%. Terms to be set Oct. 7.
Société Nationale Elf-Aquitaine	$200	1993	3	100	100.00	Each $5,000 note with 170 four-year warrants, each exercisable into one share at 315 francs. Fees 2½%.
Ryobi	DM 60	1994	1⅝	100	—	Noncallable. Each 5,000-mark note with 1 warrant exercisable into company's shares at 416 yen per share. Fees 2½%.

Hopes of Cut In Rates Help Buoy Prices Of Bonds

By Kenneth N. Gilpin
New York Times Service

NEW YORK — Demand for bonds picked up after some market participants grew more optimistic about prospects for a coordinated round of interest-rate cuts.

Prices inched cautiously higher in very light trading on Friday. The credit markets rallied after an early

U.S. CREDIT MARKETS

round of selling pushed prices lower in the morning.

The market was helped by hopes that finance ministers from the world's major industrial nations meeting in Washington would reach agreement on interest-rate reductions.

But the underlying trend of the market remains uncertain.

"This is a market that is moving out of uncertainty, not out of conviction," said William N. Griggs, a managing director at Griggs & Santow Inc., a financial consulting firm. "It is trying to get into a holding pattern to see what happens in Washington."

Mr. Griggs and other analysts noted that traders were anxious to square off their positions going into the weekend because of the possibility that the finance ministers would issue a statement of intentions, rather than plans for fast action. If that occurs, bond prices could tumble this week, the analysts predicted.

"If we get a vague communiqué that says we intend to do something sometime, then it looks like the dollar and our market will be in trouble," Mr. Griggs said. "But if we get an agreement to cut rates or stabilize the currency, then I think the bond market will react positively."

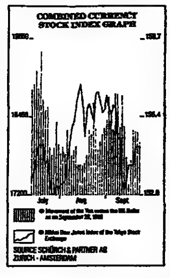
Friday's trading was particularly thin among long-term issues, which are a focus of speculators because of their maturity dates.

By late in the day, the price of the government's bellwether 7¼-percent, 30-year issue had risen by slightly less than half a point, to 95½, to yield 7.62 percent. The Treasury's 7⅜-percent, 10-year bond rose to 99⅝, to yield 7.45 percent. Short-term rates were little changed.

U.S. Consumer Rates
For Week Ended Sept. 26

Passbook Savings	5.50 %
Tax Exempt Bonds Bond Buyer 20-Bond Index	7.18 %
Money Market Funds Donoghue's 7-Day Average	5.44 %
Bank Money Market Accounts Bank Rate Monitor Index	5.43 %
Home Mortgage FHLB average	10.85 %

WORLD STOCKS IN REVIEW / Via Agence France-Presse



Amsterdam

Prices on the Amsterdam stock exchange were higher at the start of last week but failed to sustain the rally.

The ANP-CBS general share index fell to 279.5 from 280.5 the previous Friday. Volume dropped from 5.256 billion guilders to 4.047 billion guilders.

Kempen & Co., a Dutch brokerage, said investors felt uncertain about short-term market prospects.

Philips gained ground, but Akzo was weaker on rumors of losses in the start-up of new fiber operations.

The decline set in on Thursday when it became clear that the West German Bundesbank had again decided not to lower its discount rate. Investors then decided to await the outcome of talks in Washington involving world finance ministers, analysts said.

Frankfurt

Trading was irregular last week on the Frankfurt stock exchange, reflecting a fall in share prices on Wall Street and uncertainty ahead of the weekend meetings of world monetary officials in Washington.

Despite the caution displayed by investors, prices increased an average of 1.5 percent. The Commerzbank index closed at 1,985.1 points, up 30.8 points from the previous Friday.

The volume of transactions came to 1.982 billion Deutsche marks, against 1.928 billion DM last week.

Volkswagen lost ground, falling 5 to 475.50. BMW moved up 21 to 612 and Daimler advanced 14 to 1,244.

Linde, in capital equipment, rose 30 to end the week at 797 while Karstadt and Horten, two department stores, rose 14 and 4.30 respectively to 435 and 222.50.

Deutsche Bank moved up 15 to 787, mainly because of its role in the placement of Libya's shares in Fiat of Italy.

Hong Kong

The Hang Seng Index broke through the 2,000-point barrier last week for the first time, hitting three successive highs to finish the week at 2,034.36, for a 108.54-point gain. The Hong Kong Index jumped an equally impressive 67.75 points to 1,280.30. Daily volume averaged 585 million Hong Kong dollars.

Dealers predicted that the Hang Seng would consolidate at around the 2,000-point level this week.

After a bright start Monday, the market surged Tuesday on news that Hutchison Whampoa had acquired a 4.99-percent stake in Pearson PLC of Britain with an eye to a possible takeover. Bulls led by foreign investors Wednesday and Thursday pushed the Hang Seng through the 2,000 barrier to highs of 2,008.30 Wednesday and 2,011.70 Thursday.

The index closed at a new high Friday after Jardine Matheson announced a 173-percent jump in its midyear net profit. Hutchison gained 2.50 over the week to 35.75. Cheung Kong put on 1.90 to 26.50, and Swire Pacific 1.10 to 14.60.

London

With investment activity at a minimum last week, share prices drifted lower on the London Stock Exchange. The Financial Times industrial share index ended down 30 points on the week at 6,238.4.

Government securities fell sharply, unsettled by the British pound's continued weakness, fears of an imminent rise in interest rates and news of a record trade deficit in August.

Gold mines returned to the limelight early in the week in response to the surge in the bullion price, but best levels were not maintained.

Among companies reporting last week Coats Viyella, Tootal, Combined English Stores, RMC Group, and George Wimpey all produced figures either in line with or higher than expectations. Lasmo, as expected, announced lower first-half profits.

Greenwell Montagu, a London brokerage, remained positive for British equities in the medium term because of good prospects for high growth rates in dividends and earnings.

Milan

The COMIT index gained 6.29 points, or just over 1 percent, last week to close at 750.40 Friday, after irregular trading on the Milan bourse dominated by Fiat and Montedison.

After a slow start Monday, reports Tuesday that Libya had agreed to sell its stake in Fiat pushed Fiat shares up 3.8 percent and the index 3.52 percent the same day. But this was followed during the rest of the week by a wave of Fiat selling, for a weekly loss of 2.11 percent.

That downward influence on the index was partly countered by a record 11.27-percent gain by the chemicals giant, Montedison, on reports of conflicts between the chairman and shareholders, including Mediobanca, over a bid to take over Fondaria Insurance.

Mediobanca put on 2.90 percent. Among other leading shares, Gemina gained 14.49 percent.

Paris

Share prices on the Paris Bourse gained in sluggish trading last week. The CAC index of leading shares ended the week at 386.4, up from 380.2 on the previous Friday.

Investors were cautious, with foreigners notably absent even though international analysts remain optimistic on future trends on the Paris market. They contend that the Bourse, unlike the Tokyo market, is not overvalued, with French companies having a potential for growth superior to concerns elsewhere in Europe and in the United States.

Analysts noted particular interest in Saint Louis-Bouchon, the sugar manufacturer. Its shares rose 18 percent. The decision by the French government to sell 11 percent of the capital of the nationalized Elf Aquitaine oil company, at 305 francs a share, was well received on the exchange. Financial experts said small shareholders would likely be favored and that Elf's denationalization operation would therefore succeed.

Singapore

The Singapore stock market went through an uncertain week dogged by bearish news from Malaysia and early signs of a slide in the Malaysian dollar against the Singapore dollar.

Selling prompted by bad corporate reports made for some selective bargain-hunting that benefited chosen Singapore stocks and Malaysian plantations to push up the Straits Times index 4.72 points over the week to 821.64.

The market suffered a spate of selling Thursday on news of the suspension of Federal Cables, amid continuing nervousness about the Malaysian economy. But because news that Promet was going into receivership came well after the close Friday, the market was spared a further jolt.

Average daily volume rose to 15.87 million shares from the previous week's 14.3 million. The average value of shares traded was 32.73 million dollars against 25.83 million dollars a week earlier.

Despite denials from Kuala Lumpur on a devaluation, market uncertainty is expected to continue until the Malaysian budget is presented next month, analysts said.

But additional interest in Singapore investments by Malaysians fearing a drop in their currency could keep the market resilient, they added.

Tokyo

After two consecutive weeks of hefty losses, share prices on the Tokyo stock market chalked up strong advances last week. The Nikkei average gained 437.53 yen over the week to finish at 17,960.98 yen, and the composite index of all common stocks listed on the first section put on 54.21 points to close at 1,503.45.

With their new business year due to start Wednesday, securities firms began Friday picking up several blue chips, focusing on utilities and electrics. Analysts foresaw a bullish market this week with large securities firms continuing to lead the buying spree.

Average daily volume rose to 915 million shares against the previous week's 551.6 million, largely because of a two-billion-share volume Friday, when institutional and corporate investors returned to the market after a strong rally on Wall Street.

Ishikawajima Harima Heavy Industries hit a record high of 1,110 Friday, up 479 from the previous week. Nippon Steel, Kawasaki Steel, Tokyo Gas, Tokyo Electric Power, Hitachi and Toshiba also fared well. The market was closed Tuesday for a national holiday.

Zurich

The Zurich stock exchange was in a holding pattern by the end of last week as investors were awaiting the outcome of meetings in Washington during the weekend of world finance ministers.

Analysts said the trading was further subdued by the refusal of the Bundesbank, to lower its discount rate, a move sought by the United States.

Société de Banque Suisse index dropped to 624.4 from 626 the previous Friday.

"There was a certain pressure to sell, coming from West German investors, that was noted at the end of the week," according to one stock market source. As a result, he said, shares of Union de Banques Suisses dropped 70 points to 5,650, while those of Motor Columbus, a financial company, were down 65 to 1,875.

Insurance concerns closed stronger, led by Cie. de Rassurance nominal shares, which closed 200 points better at 6,150. Ciba-Geigy bearer shares, leading the chemicals section, were up 125 to close at 3,500.

Eurotunnel Syndicated Credit Sets Project-Financing Record

By Carl Gewirtz
International Herald Tribune

PARIS — The largest syndicated credit for project financing was announced last week for Eurotunnel, the Anglo-French consortium set up to build a rail tunnel under the English Channel.

Not only is the size a record — £5.2 billion — but so is the 18-year duration. Larger credits have been

INTERNATIONAL CREDIT

organized on the international market, but they have been much shorter in term, and associated with corporate takeover battles.

The loan is scheduled to be drawn in mid-1988. Until then, Eurotunnel will pay the banks an annual commitment fee of ⅛ percent. In the early phase of construction, interest will be set at 1¼ points over the London interbank offered rate. After completion, scheduled for 1993, interest will drop to 1 point over Libor.

Banks underwriting the loan will earn a front-end commission of ⅞ percent.

Confirmation that the banking syndicate was prepared to finance the initial stage of the project was needed before the consortium could proceed with plans to make its first international share offering totaling £206 million. The five founding banks of the Eurotunnel consortium — Crédit Lyonnais, Banque Nationale de Paris, Banque Indosuez, Midland Bank and National Westminster — arranged the loan.

Elsewhere, the competition between Ireland and France's Crédit National produced surprising results. Ireland will pay banks an annual fee of 4 basis points, or 0.04 percent, for the first two years and 5 basis points thereafter for providing a 10-year, $400-million facility that will be used to back the sale of short-term notes.

If the Irish draw on the bank line, they will pay Libor for using up to 25 percent. Drawing up to 75 percent of the amount will cost the Irish 7½ basis points over Libor and for more than that they will pay 12½ basis points over Libor.

The terms looked particularly aggressive when compared with those that Crédit National accepted on a $300-million, 10-year facility. It will pay an annual facility fee of 4 basis for the first five years and 5 basis points thereafter.

Drawings in dollars will cost the borrower interest pegged at Libor for up to 25 percent of the total amount. If up to 60 percent is used, interest will be set at 5 basis points over Libor, and for more than that the borrower will pay 10 basis points over Libor.

Drawings in other currencies will cost 2 basis points over Libor for up to 25 percent, and identical charges thereafter to drawing in dollars.

Crédit National confirmed bankers' comments that it had received proposals for much lower charges — a facility fee of 4 basis points for 10 years — after Ireland's terms were disclosed, but said it rejected them as "too aggressive."

The credit agency said it was motivated by two factors. One is the French Treasury's guideline that no more than half the total amount be underwritten by French and Japanese banks, the other a desire to have a wide contingent of American banks, which are generally more demanding on remuneration.

The U.S. banks are the biggest placers of short-term notes, and having them in the tender panel bidding for paper that Crédit National sells is an assurance that the cost of the paper will be the lowest possible.

The loan is being arranged by Bank of America, Bank of Tokyo, Société Générale and Orion Royal Bank.

Meanwhile, Chase Manhattan and Mitsubishi Bank, managers of the Irish loan, report an "extremely favorable" response, noting that Morgan Guaranty, First Chicago, Banque Nationale de Paris and Commerzbank had agreed to join the syndicate.

In Hong Kong, bankers report a tremendous hunger for assets — and, thus, a compression of loan charges. India benefited from this, with the Oil and Natural Gas Commission paying ¼ point over Libor for the first three years and ⅜ over Libor for the final seven years on a $300-million loan. These are the lowest terms yet paid by an Indian borrower.

The commission is also raising $200 million on a tax-spared basis. The tax treaties India has with Japan and Britain enable banks in those countries to make loans at very low cost and still make a hefty profit. To assure their home authorities that taxpayers are not subsidizing the banks or the borrower, interest on this loan is set at a token margin of 1 basis point over Libor.

Island Creek of China Coal Ltd., a joint venture of Occidental Petroleum and the Bank of China, is seeking $475 million to develop what will be the largest mine in the world, producing 12 million tons a year of steaming coal.

The 10½-year facility comprises a $300-million loan once the project is completed (expected within 18 months), a $75-million revolving standby facility once the mine is completed and a $100-million loan that becomes available once the price of the coal reaches a set level. The lenders have only limited recourse to the sponsors for repayment; the output from the mine will be used to service the loan.

Interest is more than 1 point over Libor, bankers report. The loan is being organized by Bank of America, Crédit Lyonnais, Industrial Bank of Japan, Orion Royal Bank and the Bank of China.

In Eastern Europe, Hungary achieved what at first glance looked like amazingly low terms. It has arranged a $100-million loan with a group of Japanese banks at terms that set a new low, but not as low as it appears.

The eight-year credit is divided equally into a term loan, on which interest is set at ¼ point over Libor for the first four years and ⅜ point over Libor thereafter. Interest on the revolving credit is set at 5 basis points over Libor for the first four years and 12½ basis points thereafter.

However, the Hungarians will pay an annual facility fee on the revolving credit of 12½ basis points, regardless of whether it is drawn or not. In addition, if Hungary draws more than one-third of the amount, it will pay a utilization fee of 10 basis points, and if it draws more than two-thirds, the utilization fee rises to 15 basis points.

In actual cost, drawing the full amount of the revolving credit during the first four years would cost 32½ basis points over Libor, rising to 40 basis points in the final four years.

To fill the gap between the Euronote-commercial paper market, where maturities usually do not exceed one year, and the Eurobond market, where maturities are rarely less than five years, Sweden's Electrolux is planning to market medium-term notes of 1- to 10-years' maturity. Like the CP market, terms and conditions will be tailored to Electrolux's needs and investors' preferences.

The company intends to market up to $100 million of notes in the one- to five-year range and up to $200 million in what dealers Merrill Lynch and Enskilda Securities call a "multitranche tap note program." This later portion is intended as a continuous offering of notes, ranging up to 10 years.

EUROBONDS: *Sale of Libya's Fiat Shares Criticized*

(Continued from first finance page)

payment date (it has risen a fraction since Wednesday) and the lira value of the securities declines (as it has), underwriters could be left holding dollar-denominated Fiat shares whose price is way out of line with the values expressed on the Milan stock exchange.

On Wednesday, Fiat's common stock closed at 16,600 lire, the preferred shares at 10,520 and the savings shares at 9,920. By Friday, the common stock was down 6.7 percent, the preferred shares had fallen 9.6 percent and the savings shares were off 1.6 percent.

The offering price in dollars set Wednesday was $11.28 for the common stock, $7.06 for the preferred stock and $6.75 for the savings shares. But using Friday's exchange rate and stock prices, the common stock could be purchased in Milan for the equivalent of $10.95 a share, the preferred stock for $6.72 and the savings shares for $6.54.

Some of the underwriters estimate that more than 70 percent of the savings and preferred shares remained to be sold. Estimates on the sale of common stock were more difficult, these underwriters said, since many orders that had been placed were canceled by customers who were concerned about the marketability.

There was little other business of interest in the international market last week.

Virtually all the fixed-coupon Eurodollar bonds were designed for Japanese investors who want high-yielding paper to maximize current income and who are willing to pay for it with over-par subscription prices.

A novelty in the French-franc sector was Sweden's five-year bull-bear bonds, whose redemption value is tied to the performance of the Paris stock exchange index. The novelty is that the play on the index covers only one year, during which period the coupon on the bonds is set at 3¾ percent. At the end of the year the redemption value is established — with limits of no more than 140 percent of face value and no less than 60 percent — and for the remaining four years the coupon rises to 8 percent and the paper trades as a normal bond.

Chicago Bank to Close Branch in Abu Dhabi

Reuters

ABU DHABI — First National Bank of Chicago will close its Abu Dhabi branch by the end of this year, the vice president and general manager, Alan Stark, said Sunday.

He said the bank would retain a branch in Dubai, another of the seven emirates in the United Arab Emirates.

NASDAQ National Market

OTC Consolidated trading for week ended Friday.

(Continued)

Sales in 100s	High	Low	Close	Net Ch'ge
[illegible]				

(Continued on next page)

Among U.S. business magazines, there is only one leader.

You probably already know that Business Week International is the leader in cost efficiency in reaching Chief and Senior Executives in Europe and Asia.

Now, we want you to know that, in America, the unqualified leader is Business Week. Not Forbes. Not Fortune.

Business Week.

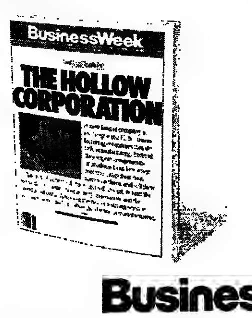
One look at the chart on the right shows you that Business Week dominates the other U.S. business magazines by every meaningful measurement.

Take target audience coverage. We deliver more readers of virtually every targeted market segment. At a lower cost per thousand.

In fact, no matter how you feed these questions into your computer, Business Week emerges as the most effective advertising medium in the business magazine field. We give you more timeliness, better efficiencies, greater reach, more geographic options, more circulation.

So when you advertise in the U.S., the world's largest market for goods and services, go with the leader.

Business Week.



COMPARISON CHART

		BUSINESS WEEK	FORBES	FORTUNE
N.A. CIRCULATION		✓ 788,210	729,523	626,258
TOTAL READERS		✓ 5,713,000	2,938,000	3,624,000
TARGET AUDIENCE COVERAGE Top Management:	% Coverage	✓ 13.6%	7.9%	7.2%
	4/C CPM	✓ $83.79	$124.33	$147.80
Top Management IEI $50,000+:	% Coverage	✓ 17.1%	11.2%	9.5%*
	4/C CPM	✓ $141.82	$186.49	$237.93
Top & Middle Management 1000+ Employees:	% Coverage	✓ 14.5%	9.2%*	8.3%*
	4/C CPM	✓ $126.07	$171.47	$205.37
Top & Middle Management Under 1000 Employees:	% Coverage	✓ 8.7%	5.5%	5.1%
	4/C CPM	✓ $74.17	$101.92	$117.18
Managers/Administrators Purchase Decision Makers: $50,000+:	% Coverage	✓ 15.0%	7.7%	7.7%
	4/C CPM	✓ $89.89	$151.38	$163.26
READERS IEI $35,000+:	% Coverage	✓ 11.7%	6.5%	6.1%
	4/C CPM	✓ $23.58	$36.81	$41.73
IEI $50,000+:	% Coverage	✓ 14.9%	10.1%	7.7%
	4/C CPM	✓ $56.81	$72.22	$102.68
College Grad. IEI $50,000+:	% Coverage	✓ 20.3%	13.8%	11.4%
	4/C CPM	✓ $71.88	$91.13	$118.96
DEMOGRAPHIC/REGIONAL EDITIONS		✓ 15	0	11
TIMELINESS		✓ Weekly	Bi-Weekly	Bi-Weekly
B/W CLOSING		✓ 4 weeks	5 weeks	6 weeks

Source: Spring 1986 MRI, ABC 12 Month Average—1985
*Caution: Projection relatively unstable because of small base.

BusinessWeek

Frankfurt: Percy Fohrbach (69) 72-01-81 • **Lausanne:** Irmgard Fischer (21) 27-44-11 • **London:** Keith Mantle (1) 493-1451 • **Milan:** Roberto Laurenti (2) 805-95-67 • **Paris:** Bruno Hermann (1) 42-89-03-81 • **Stockholm:** Andrew Kamig (8) 4400-05 • **Tokyo:** Paul Ishii (3) 581-9811

American Exchange Options

Figures as of close of trading Friday.

Option & price	Calls			Puts		
	Oct	Nov	Jan	Oct	Nov	Jan
[illegible]						

Total volume

n—Not traded. s—No option offered.

Economists Draft Latin Growth Plan

By Barnaby J. Feder
New York Times Service

NEW YORK — Economists in Washington, Mexico City and Rio de Janeiro have drafted an ambitious blueprint for renewed economic growth in Latin America that calls for $20 billion annually in capital commitments from the United States and other industrial nations over the next several years.

The amount is far more than that proposed by the U.S. Treasury secretary, James A. Baker 3d, at the annual meeting of the World Bank and the International Monetary Fund in Seoul last October. Mr. Baker called for new investments of $29 billion over three years to spur growth in 15 major debtor nations, 10 of them in Latin America.

"To the extent that interest in the Baker plan has been flagging, this could stimulate it," said C. Fred Bergsten, director of the Institute for International Economics, which managed the yearlong study with two of Latin America's leading economic research organizations, El Colegio de Mexico and the Fundacao Getulio Vargas.

The bulk of the report, "Toward Renewed Economic Growth in Latin America," focuses on needed reforms. It urges Latin American countries to adopt policies that will increase exports, stimulate savings and capital investment from overseas, reduce red tape and cut back on state ownership of businesses while improving education and other services.

These reform policies are gaining acceptance, but specific measures to carry them out have been halting and, in cases such as Peru, have even been repudiated.

Mr. Bergsten said the recent agreement at Punta del Este, Uruguay, on an agenda for a new round of talks aimed at reducing barriers to international trade could encourage some Latin American countries to move more aggressively along the lines proposed.

But the report said the Latin American countries needed far more than new trade talks from the industrial world. It cited six major tasks for industrial countries, led by the United States:

- Produce steady world economic expansion of at least 3 percent annually.
- Reverse the tide toward protecting domestic industry and avoid new export subsidies.
- Hold real interest rates (the market rate minus inflation rate) to historic levels between 2 percent and 3 percent.
- Prevent misalignments of their own currencies, such as the recent overvaluation of the dollar.
- Encourage capital investment in the Latin American countries that adopt the proposed reforms.
- Give more support, including more money, to international financial institutions, especially the World Bank and the Inter-American Development Bank, which have been major sources of financing for investment in roads, irrigation, telecommunications, and other infrastructure projects.

The study was commissioned by the Americas Society, a New York-based association headed by David Rockefeller. Its authors included Bela Balassa, a Johns Hopkins University consultant to the World Bank; Gerardo M. Bueno, former director of Mexico's National Council for Science and Technology and ambassador to the European Community; and Mário Henrique Simonsen, Brazil's former minister of finance and planning.

They began formulating their plan before Mr. Baker's announcement, and many of their recommendations overlap with his. But the economists say they doubt that commercial banks are ready to answer Mr. Baker's call to provide about $20 billion of the increased financing and so have proposed a far larger role for multinational institutions such as the World Bank in the early years of their plan. Under the Baker plan, such institutions would increase loans by $9 billion over three years.

Deng Urges Quadrupling Of Japan Trade With China

Reuters

BEIJING — The Chinese leader, Deng Xiaoping, has called for a quadrupling of China's share in Japanese trade, according to Xinhua news agency.

Mr. Deng said Saturday that China would benefit and Japan would not be harmed if 25 percent of Japan's trade were with China, compared with 6.2 percent last year.

Mr. Deng told a Japanese delegation from the Japan-China Association on Economy and Trade that Japan and China relied on each other and this reliance might become more pronounced over the next century.

He described as unfounded fears that China woud become Japan's major competitor after his country became better developed.

In the long run, Mr. Deng said, Japan needed another big trading partner, and the obvious choice was China because of its close proximity to its smaller neighbor.

He urged Japan to cooperate with China on various levels, adding that the growth of bilateral economic ties would help to develop political relations.

Japan had a $1.7-billion trade surplus with China in the first half of this year, down from $2.8 billion in the 1985 period, Japan's Finance Ministry said. The trade deficit with Japan was about $1.25 billion in 1984 and $5 billion last year.

Japanese exports to China fell 23.5 percent to $4.6 billion in the first half of 1986 from the 1985 half, while imports from China fell 9 percent to $2.9 billion.

China said last October that it would not tolerate a third consecutive year of trade deficit with Japan in 1986 and called on Japan to import more Chinese goods and invest more in China.

Press Cites Waste in Vietnam

Agence France-Presse

HANOI — Low return on investment, poor quality goods and continuing corruption have led to massive waste of Vietnam's scarce financial resources, according to reports in the official press here.

Foreign aid has been squandered on unprofitable industrial investment spread thinly across too many projects, the Communist Party's theoretical Tap Chi Cong San said in its latest issue Sunday.

Industrial production grew at an average rate of 9.5 percent a year from 1981 to 1985, the journal said, but half of the goals of the five-year plan were not met. Moreover, the worst results were registered in key sectors of the economy, notably food, coal, cement, electricity and exports, it said.

The journal also attributed the low return on industrial investment to slow building activity and "numerous" uncompleted facilities.

Factories were often forced to contend with shortages of energy and raw materials as well as labour and transport problems, it added.

According to official statistics, the building of new plants, mostly to produce energy, account for 73 percent of industrial investment and only 14 percent of investment is directed at modernising equipment.

IMF Scales Down Growth Estimates

Agence France-Presse

WASHINGTON — World economic activity will be slower than expected this year and next as the U.S. trade and budget deficits continue to expand and the developing world remains weighed down by large debt obligations, the International Monetary Fund forecast Sunday.

In a report opening the IMF's annual conference in Washington, the fund's economists revised downward estimates of world economic growth to 2.8 percent this year, with a slight acceleration to 3.1-percent growth in 1987.

Citing "disappointing" results so far this year, the fund revised to 2.75 percent from 3 percent its estimates of growth in the industrialized world in 1986, with 3 percent growth forecast for 1987.

Developing countries will record growth of only 2.7 percent this year and 2.9 percent in 1987. Declining export earnings resulting from lower commodity prices and a strong contraction in world trade have increased these nations' debt burdens, the fund said.

These burdens have been partly relieved by lower interest rates, which have aided developing countries to service their debt, the economists said.

The IMF stressed the importance of reducing budget deficits in industrialized countries, especially in the United States, for there to be any durable growth in the world economy.

"The budgetary situation in the United States remains of crucial importance for the short-term prospects not only of the United States but of the world economy as a whole," the report said.

It is not until 1987 and beyond, according to the report, that the fall in the dollar initiated at the end of 1985 will have any effect on the U.S. trade deficit and thus on world economic activity.

The realignment of exchange rates will not be sufficient by itself to restore a fully viable pattern of payments in the United States, West Germany and Japan, the economists contended.

The IMF also rejected as potential solutions measures to stimulate the West German and Japanese economies, which have been called for by Washington to counter Japan's and West Germany's large trade surpluses.

"It is unlikely that a one-percentage-point increase in domestic growth in Japan and the Federal Republic of Germany [over a three-year period] would alter the U.S. trade balance by more than $5 to $10 billion," the IMF said.

The poor growth prospects in the Third World must be seen as a clear setback, according to the report. It is obvious that the IMF and other members of the international community will have to continue individual aid to a number of developing countries, the economists said.

In spite of last year's so-called Baker Initiative, named after U.S. Treasury Secretary James A. Baker 3d, to increase state and private credits to the 15 most indebted nations, commercial banks will continue to be cautious on loans to the Third World, the IMF predicted.

COMPUTE: *Honeywell Gives Up*

(Continued from first finance page)

analysts said, would probably accrue to NEC, which manufactures Honeywell's top-of-the-line mainframes. The Japanese company has not had an effective marketing outlet in the United States.

Bull, which makes Honeywell's DPS 7 minicomputer, is in a more precarious financial state. It is recovering from several years of losses in Europe, its main market, and is scheduled to be sold to the private sector by the French government in the next several years. Some analysts doubt that it is prepared to make a large commitment in an agreement with Honeywell.

Honeywell's retreat from computers comes nearly three decades after its technology was briefly considered among the industry's hottest. In the early 1960s, it decided to go head-to-head with IBM, and succeeded in selling machines to a number of commercial customers and to federal agencies, particularly the Pentagon.

With the acquisition of GE's computer division in 1970, Honeywell hoped for a breakthrough. But the strategy failed. By the early 1980s, many of Honeywell's biggest customers were defecting to IBM for access to more computer power and more software.

In recent years, Honeywell's chairman, Edson W. Spencer, and his second-in-command, James J. Renier, tried a different tack: integrating the computer operations with Honeywell's thriving aerospace and military businesses and its controls business, where it is the market leader.

On Sept. 19, Honeywell announced that it was negotiating to buy Sperry's aerospace business. A Honeywell spokesman said last week that those negotiations were unaffected by the latest developments.

Europe Computer Firms Seek Compatibility

Agence France-Presse

BRUSSELS — Seven leading European computer groups have decided to work together to achieve compatibility of their respective systems, industrial sources say.

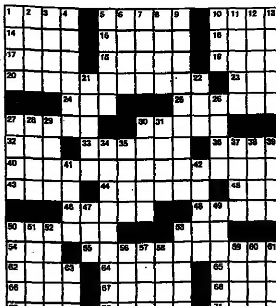
The groups involved are Siemens AG and Nixdorf AG of West Germany, Olivetti SpA and STET of Italy, Cie. des Machines Bull and Thomson-CSF of France and ICL PLC of Britain.

NASDAQ National Market

OTC Consolidated trading for week ended Friday.

(Continued)

			Sales in 100s	High	Low	Close	Net Ch'ge
[illegible]			14730	13½	13⅛	13½	+ ⅛
[illegible]	.36	3.3	1118	14½	12	13½	+1⅛
WTIA			1236	20¾	18	18¾	+ ¼
[illegible]	.42	2.0	451	21½	20	21	+ ¼
[illegible]	1.00	2.3	5	44	41	44	+1
[illegible]			1941	30½	27	27¼	—1½
[illegible]			1161	4	2⅞	2⅞	— ⅛
[illegible]	1.06	2.6	1011	40½	40¼	40½	
[illegible]	1.44	1.6	14	91	87	88	—1¼
[illegible]			3238	5⅞	5⅝	5¾	
Wicat			2726	3¼	3	3	— ⅛
[illegible]			167	5⅞	5	5⅛	— ⅛
[illegible]	1.10	3.2	1533	34	31½	34	+1½
[illegible]	1.03	2.6	2491	41½	39⅝	39⅝	
[illegible]	.40b	2.6	12	16¼	16½	16½	—1¼
[illegible]			3233	24¾	23⅝	23⅝	— ⅛
[illegible]			109	9⅜	9⅛	9⅛	
[illegible]			1662	20	19¼	19¼	— ¼
[illegible]	1.20	2.6	1849	45½	46½	45½	+1
[illegible]			2244	10⅝	9⅝	10⅛	+ ⅛
[illegible]			148	1⅞	1⅝	1¾	+ ⅛
[illegible]			2127	6⅛	6	6	— ⅛
[illegible]			432	5⅛	4⅝	5⅛	+ ½
[illegible]	1.04b	5.5	1	19	19	19	—1½
[illegible]	.40	2.5	328	15⅝	15¼	15⅝	+ ⅛
[illegible]	.16	2.0	372	8	7⅝	8	+ ⅛
[illegible]			474	10	9	9½	+ ½
[illegible]	.60	5.9	182	11	10⅛	10⅛	— ⅛
WOW			15487	22½	21	21¾	+1½
[illegible]	.48	1.7	2785	28⅝	27¼	28⅝	+1½
[illegible]	.20	3.4	180	11¾	11¼	11¾	— ¼
Writer	.15e	2.2	563	6¾	6⅝	6¾	+ ⅛
Wyman	.80	4.0	5122	20	18½	20	+1½
Wyse			1827	14⅝	13¾	14	+ ⅝
X							
XL Data			337	20¾	19	19½	
XOMA			774	12¾	11½	12	— ½
Xebec			398	2⅜	1⅞	1⅞	— ½
Xicor			3710	5⅝	4⅝	5⅛	+ ⅜
Xidex			10675	16¼	15	15	—1¼
Xidx wt			406	5	4⅝	4⅝	— ¼
Xyvis			1397	14	12½	13⅝	+1¼
Y							
YlowF s	.42	1.4	8774	29	26¾	28	+1
YrkFn s	.56	2.4	157	20⅜	19¾	20⅜	+ ⅜
Z							
Zehntel			785	3⅝	3⅜	3⅜	+ ⅛
Zenith	.80	3.4	7063	24⅜	23	23¼	—1
Zentec			263	3½	3	3¼	+ ½
Zeus			90	7	6½	6⅝	— ¼
Ziegler	.48a	2.8	57	17¼	17	17¼	
ZionUt	1.44	3.0	1466	47⅝	46¾	47½	+ ½
Zitel			198	2⅞	2½	2½	+ ⅛
Ziyad			1582	3⅝	3⅛	3⅜	— ⅛
Zondvs	.2		18270	24⅛	22	23⅜	+1⅝
Zycad			3156	5⅝	4⅝	5	+ ⅜
Zygo			23	7½	6⅞	7½	+1
Zymos			1037	2⅜	1⅞	1⅞	— ⅜



9/29/86

ACROSS

1 Grand —— (bridge term)
5 Restrict
10 Skeleton part
14 Hawaiian dance
15 Cryptographer
16 In a line
17 Secondhand
18 Fragrance
19 Padres or Pirates
20 Gershwin favorite: 1924
23 "... thy warfare ——": Scott
24 Deed
25 Happenings
27 Sammartino or Skoggard
30 Challenges
32 Chalice veil
33 Oarsmen
36 Acknowledge
40 Cole Porter hit: 1935
43 Arabian gulf
44 Saharan rock area
45 Wine cask
46 Eats limited food
48 Four-footed mammal
50 Shooting star
53 Tues. preceder
54 "All The Things You ——": 1939 Kern hit
55 Stephen Foster's masterpiece: 1851
62 Prepares leather
64 Sluggish
65 Strong wind
66 Being: Lat.
67 Woman's long scarf
68 Fail to hit a target
69 A cervid
70 Domestic slaves of yore
71 Med. school subj.

DOWN

1 Closed
2 Luxuriant
3 Toward shelter
4 Lunatic
5 Meager
6 Convex moldings
7 False god
8 Verne character
9 Went across
10 Prohibit
11 Mythical hunter
12 Combination of nine voices
13 Water pitchers
21 Fruit of an oak
22 First woman
26 Jacob's twin
27 Polish cake
28 Clarinet part
29 Exhort
30 Judges
31 Turkish carriage
34 Differently
35 Which thing
37 Life, in Italy
38 Burden of proof
39 Departed
41 India, to René
42 Eva or Zsa Zsa
47 Large hawks
49 Baffling matter
50 Paired
51 Expunge
52 Taut
53 Allots
56 Hill dwellers
57 Cousin of argon
58 Writer Gardner
59 Conceited
60 Famed lioness
61 Remainder
63 Homily: Abbr.

DENNIS THE MENACE

WHEN I GET THROUGH WRITING THIS STORY, WILL YOU READ IT TO ME ?

JUMBLE

THAT SCRAMBLED WORD GAME by Henri Arnold and Bob Lee

Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

HINKT

KARNC

AMPODE

OXCIBE

Now arrange the circled letters to form the surprise answer, as suggested by the above cartoon.

Answer here:

(Answers tomorrow)

Friday's | Jumbles: ODIUM PANDA SKEWER DRAGON
Answer: How they felt when teacher gave a zero to everyone in the class—"DE-GRADED"

WEATHER

	HIGH C	HIGH F	LOW C	LOW F	
EUROPE					
Algarve	26	79	18	64	fr
Amsterdam	17	63	4	9	cl
Athens	27	81	20	68	fr
Barcelona	23	73	14	57	fr
Belgrade	13	55	10	50	o
Berlin	16	61	7	45	cl
Brussels	17	63	7	45	fr
Bucharest	11	52	8	46	o
Budapest	20	68	8	46	cl
Copenhagen	11	52	9	48	o
Costa Del Sol	26	79	16	61	fr
Dublin	18	64	15	59	o
Edinburgh	17	63	4	39	r
Florence	21	70	15	59	cl
Frankfurt	19	66	8	46	cl
Geneva	18	64	6	43	fr
Helsinki	7	45	6	43	fr
Istanbul	24	75	17	63	fr
Las Palmas	26	79	21	70	fr
Lisbon	25	77	18	64	fr
London	17	63	12	54	o
Madrid	21	70	8	46	fr
Milan	18	64	11	52	o
Moscow	2	36	-1	30	o
Munich	17	63	5	41	fr
Nice	23	73	16	61	fr
Oslo	12	54	3	37	r
Paris	19	66	11	52	fr
Prague	16	61	9	48	cl
Reykjavik	9	48	5	41	cl
Rome	21	70	16	61	r
Stockholm	8	46	3	37	r
Strasbourg	18	64	4	39	fr
Venice	21	70	10	50	fr
Vienna	18	64	10	50	fr
Warsaw	12	54	0	32	fr
Zurich	17	63	4	39	fr
MIDDLE EAST					
Ankara	24	75	6	43	cl
Beirut	—	—	—	—	na
Damascus	31	88	12	54	fr
Jerusalem	28	82	18	64	fr
Tel Aviv	31	88	21	70	fr
OCEANIA					
Auckland	19	66	11	52	r
Sydney	20	68	16	61	fr

	HIGH C	HIGH F	LOW C	LOW F	
ASIA					
Bangkok	32	90	25	77	st
Beijing	21	70	6	43	fr
Hong Kong	29	84	24	75	r
Manila	32	90	25	77	cl
New Delhi	28	82	21	70	fr
Seoul	25	77	13	55	fr
Shanghai	25	77	18	64	fr
Singapore	30	86	24	75	st
Taipei	28	82	20	68	cl
Tokyo	26	79	14	61	fr
AFRICA					
Algiers	25	77	16	61	r
Cairo	32	90	21	70	fr
Cape Town	19	66	10	50	fo
Casablanca	23	73	15	59	cl
Harare	26	79	13	55	o
Lagos	29	84	24	75	o
Nairobi	29	84	10	50	cl
Tunis	27	81	19	66	cl
LATIN AMERICA					
Buenos Aires	20	68	9	48	cl
Caracas	26	79	19	66	cl
Lima	19	66	14	57	r
Mexico City	27	81	14	57	fo
Rio de Janeiro	24	75	17	63	fr
NORTH AMERICA					
Anchorage	8	46	4	39	r
Atlanta	34	93	21	70	fr
Boston	17	63	7	45	fr
Chicago	30	86	18	64	pc
Denver	18	64	4	39	pc
Detroit	26	79	17	63	pc
Honolulu	32	90	24	75	pc
Houston	33	91	24	75	pc
Los Angeles	21	70	14	57	pc
Miami	33	91	26	79	pc
Minneapolis	24	75	11	52	pc
Montreal	19	66	4	39	fr
Nassau	33	91	24	75	fr
New York	22	72	14	57	fr
San Francisco	21	70	11	52	fr
Seattle	16	61	11	52	r
Toronto	22	72	13	55	cl
Washington	27	81	21	70	cl

cl-cloudy; fo-foggy; fr-fair; h-hail; o-overcast; pc-partly cloudy; r-rain; sh-showers; sw-snow; st-stormy.

MONDAY'S FORECAST — CHANNEL: Smooth. FRANKFURT: Foggy. Temp. 19—7 (66—45). LONDON: Cloudy. Temp. 17—11 (63—52). MADRID: Fair. Temp. 22—7 (72—45). NEW YORK: Fair. Temp. 27—17 (81—63). PARIS: Fair. Temp. 20—10 (68—50). ROME: Overcast. Temp. 19—15 (66—59). TEL AVIV: NA. ZURICH: Fair. Temp. 18—5 (64—41). BANGKOK: Stormy. Temp. 33—25 (91—77). HONG KONG: Rainy. Temp. 29—25 (84—77). MANILA: Fair. Temp. 32—23 (90—73). SEOUL: Foggy. Temp. 25—13 (77—55). SINGAPORE: Stormy. Temp. 31—23 (88—73). TOKYO: Cloudy. Temp. 26—16 (79—61).

SPORTS

Red Sox Beat Jays, Clinch Tie in NL East

Compiled by Our Staff From Dispatches

BOSTON — The Boston Red Sox clinched at least a tie for the American League East title Saturday when Bruce Hurst pitched a six-hitter to beat the Toronto Blue Jays, 2-0.

Dwight Evans gave Hurst the only run he needed with a bases-empty home run in the fifth inning.

The decision reduced Boston's magic number for clinching the division title to one. A victory against the Blue Jays on Sunday would put the Red Sox in the playoffs for the first time since 1975.

Hurst struck out nine, including slugger Jesse Barfield to end the game, and didn't walk a batter to post his fourth consecutive complete game and his 11th of the season. Jim Clancy allowed only five hits but lost.

Boston's Wade Boggs, who entered the game with a major-league leading .354 average, went 1-for-4 and dropped to .353.

After Clancy retired the first 14 hitters he faced, Evans belted a 3-1 pitch over the left-field screen.

In the seventh, Marty Barrett and Bill Buckner singled for Boston. After Jim Rice popped up, Don Baylor lashed a single inside the third-base bag, scoring Barrett.

Tigers 1, Yankees 0: In New York, Larry Herndon singled home Lou Whitaker from second in the 10th, giving Jack Morris his 20th victory and eliminating New York from the division race. Morris ended Don Mattingly's 24-game hitting streak.

Rangers 1, Angels 0: In Anaheim, California, Texas pitcher Charlie Hough retired the first 16 batters he faced and finished with a two-hitter.

White Sox 5, Twins 3; White Sox 4, Twins 3: In Chicago, Jose DeLeon pitched a three-hitter against Minnesota in the opener and Ozzie Guillen singled in the bottom of the ninth in the second game to give Chicago a sweep of the doubleheader. Jerry Hairston of the White Sox homered in both games.

A's 6, Royals 3; A's 9, Royals 6: In Kansas City, Missouri, Joaquin Andujar scattered eight hits and Mike Gallego drove in three runs in the first game. Oakland gained a sweep after Bruce Bochte walked with the bases loaded in the sixth inning of the second game, breaking a 5-5 tie.

Orioles 7, Brewers 0: In Milwaukee, Scott McGregor pitched a two-hitter for Baltimore. Paul Molitor

SATURDAY BASEBALL

led off Milwaukee's first inning by beating out a bunt down the third-base line, but McGregor retired the next 24 batters before Rick Cerone led off the ninth with a walk. Edgar Diaz followed with a single.

Indians 12, Mariners 4: In Seattle, Ken Schrom allowed six hits over eight innings to run his record to 10-0 against AL West teams this season. Cleveland backed him with 18 hits, with Mel Hall, Pat Tabler and Chris Bando each getting three as all 10 Cleveland players had at least one hit.

Phillies 1, Expos 0: In the National League, in Montreal, Mike Schmidt of Philadelphia doubled in the only run to beat Floyd Youmans, who pitched a 15-strikeout two-hitter but walked seven.

The 15 strikeouts was a season high for an NL pitcher. Youmans has fanned at least 10 in a game four times this season. But he has lost three 1-0 games since the All-Star break. Schmidt's RBI was his 119th, which leads the league.

Astros 4, Braves 0: In Atlanta, Danny Darwin allowed six hits over seven innings and Craig Reynolds drove in three runs for Houston.

Cubs 5, Cardinals 3: In St. Louis, Ryne Sandberg's hit two-run triple during a four-run 10th for the Cubs.

Giants 8, Dodgers 3: In San Francisco, Vida Blue and Jeff Robinson held Los Angeles to seven hits and pinch-hitter Chili Davis's two-run homer helped make a loser of Fernando Valenzuela.

Mets 4, Pirates 2: In Pittsburgh, Gary Carter and Darryl Strawberry singled to start the 11th inning, and pitcher Barry Jones's error allowed two runs to score as New York beat the Pirates for the 13th time in 14 games this season.

Reds 7, Padres 4: In San Diego, Eddie Milner hit two home runs, and Buddy Bell hit a three-run homer in the 11th for Cincinnati. Bell's was his 19th of the year, a career high. *(UPI, AP)*

Downing Hits 2 Homers, Angels Win Title

Compiled by Our Staff From Dispatches

ANAHEIM, California — Brian Downing, in his ninth and possibly last season with the California Angels, hit two home runs and drove in five runs Friday night to lead the Angels to the American League West title with an 8-3 victory over the Texas Rangers.

The Angels, quieted by Texas left-hander Mike Mason for five innings, erupted for four sixth-inning runs — on homers by Gary Pettis, Downing and George Hendrick — to return from a 2-0 deficit and post their 90th victory of the year. The division crown is their first since 1982 and the third in franchise history.

The Angels, who have been in first place since July 7, won 23 of their last 30 to outdistance the Rangers.

FRIDAY BASEBALL

Downing, who is eligible to become a free agent after the season, hit a two-run homer in the sixth, then got a three-run shot in the seventh during another four-run inning.

Left-hander John Candelaria, who gave the Angels a big boost when he returned in July from elbow surgery, struck out nine and allowed five hits over seven innings to win his ninth game.

For Downing, the homers were his 19th and 20th of the year. Six of those homers, and 21 RBIs, have come in September. He has a career-high 92 RBIs.

Blue Jays 1, Red Sox 0: In Boston, Toronto's Jesse Barfield led off the 12th inning with his 36th home run.

Tigers 3, Yankees 2: In New York, Walt Terrell pitched a four-hitter over eight-plus innings and Chet Lemon homered for Detroit.

Brewers 2, Orioles 0: In Milwaukee, Rick Manning drove in two runs and Pete Vuckovich, Bill Wegman and Mark Clear held Baltimore to three hits to make the debut of interim manager Tom Trebelhorn a winning one.

Indians 9, Mariners 7: In Seattle, Brook Jacoby tripled home Otis Nixon and scored on a throwing error by second baseman Harold Reynolds in the 12th inning.

Phillies 5, Expos 0: In the National League, in Montreal, "Starvin'" Marvin Freeman of Philadelphia, a lean 6-foot-7, 183-pound (2.024-meter, 82.9-kilogram) right-hander, combined with Kent Tekulve for a second straight one-hitter. Freeman, recently called up from Reading of the class AA Eastern League, joined with Tekulve to one-hit the Mets last Sunday. Freeman went six innings, allowing only a fourth-inning single by the league's leading hitter, Tim Raines.

Braves 5, Astros 4: In Atlanta, Bob Horner hit a two-run homer and Doyle Alexander pitched 8⅔ innings to beat Houston.

Mets 3, Pirates 1: In Pittsburgh, Keith Hernandez hit a two-run single in the fifth to lift New York to its 101th victory of the year, a club record.

Reds 8, Padres 6: In San Diego, Kurt Stillwell looped a one-out single in the seventh, breaking a 5-5 tie for Cincinnati.

Cubs 4, Cardinals 1: In St. Louis, Brian Dayett and Gary Matthews hit two-run homers for Chicago.

Giants 3, Dodgers 0: In San Francisco, Mike Krukow won his 19th game, allowing three hits in eight innings. *(UPI, AP)*

U.S. Team Faces Volleyball Testing

The Associated Press

NANTES, France — The favored U.S. team faces a tough test beginning Monday in the semifinal round of the 11th world men's volleyball championships.

The U.S. squad, winner of the 1984 Olympic gold medal and the 1985 World Cup, will compete in Nantes against the strong Soviet and Cuban teams. Also in the draw are Argentina, third in the 1982 world championships, Japan and Poland.

The Soviet Union has won the Olympics three times and the world title six times, most recently in 1982. Cuba has beaten the United States five times out of 12 meetings this year.

In the other semifinal round, in Toulouse, France and Brazil look like the favorites in what appears a weaker field. By comparison, France lost all five matches in a U.S. tour this year, winning a total of three sets.

Also competing in Toulouse are Italy, Bulgaria, Czechoslovakia and China.

The top two teams from each bracket will play in Paris, Oct. 4-5, for the world championship.

The U.S. squad enters the semifinal round with a 2-0 record from its first round at Orléans, which finished Friday. It had victories over Argentina and Japan, and now meets Poland (on Monday), Cuba and the Soviet Union in succession.

The U.S. coach, Marv Dunphy, said of his players: "I think we play best when we are tested. We are a very emotional team."

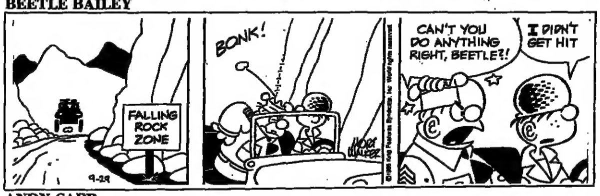
The Americans have five of their six starters from the Los Angeles Olympics back on this year's team. They are Karch Kiraly, Dusty Dvorak, Steve Timmons, Craig Buck and Pat Powers. The newcomer on the squad is Bob Ctvrtlik.

The Soviet Union, a veteran team with good blocking ability, will meet Japan in the first game on Monday. France opposes Czechoslovakia in the opening contest at Toulouse. There will be three games each day at each site.

PEANUTS

BLONDIE

BEETLE BAILEY

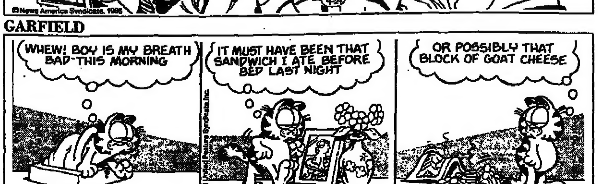


ANDY CAPP

WIZARD of ID

REX MORGAN

GARFIELD



BOOKS

FALLING TOWARDS ENGLAND

By Clive James. 192 pages. $15.95. W. W. Norton & Co., 500 Fifth Avenue, New York, N. Y. 10110.

Reviewed by Jonathan Yardley

CLIVE James is a popular, prolific and controversial British journalist, a trenchant critic of literature and television and a notably amusing memoirist. He is a native Australian whose boyhood was the subject of "Unreliable Memoirs," a book that traced his life through his undergraduate education at the University of Sydney. In 1962, at the age of 22, he sailed to England in hopes of finding a grand career. What came of those hopes is the subject of "Falling Towards England."

His plan was "to take a low-paying menial job during the day and compose poetic masterpieces at night." The difficulty was that he proved astonishingly incapable of holding even the most menial jobs by day, and by night wasted himself in carousing and womanizing. This at least is how he chooses to depict himself, for his method as memoirist is to cast himself as a bumbling incompetent whose chief talent is for getting into awkward and unnecessary trouble. Probably there is a healthy element of fiction here, for even as he recounts his misfortunes James acknowledges the acceptance of a group of his poems by Encounter; obviously the important work somehow was getting done, though James chooses not to elaborate on how he did it.

But the persona in which James cloaks himself makes for a better tale than would the unvarnished truth, with its hours of slaving away at poetry and other apprentice writing. In neither of his memoirs has James pretended to tell the whole truth and nothing but the truth — he emphasizes the unreliability of his recollections — and in both he takes pleasure in portraying himself as "a late developer." James knows that self-mockery is good for laughs, and he knows how to get them:

"It was another episode in my long history of unsuitable shoes, a story which is not yet closed and would need a book of its own. Let's just say that even now, when I have learned to dress as plainly as possible, I still get so impatient with the whole time-consuming business of covering up exposed skin that I will buy the first thing that catches my eye, and that when it comes to shoes the first thing that catches your eye is the last thing you should ever put on your feet. It is almost better to be an impulse shirt-buyer than an impulse shoe-buyer."

James's attire as he made the job-hunting rounds often consisted of a suit he'd had tailored in Singapore, the jacket of which had the alarming habit of rising above his head when he raised his arms, and shoes that resembled "two bidets full of strawberry soda." He looked "like Judas Iscariot deserting across the 49th Parallel in shoes stolen from a clown," which helps explain why so many prospective employers found him wanting. The deeper problem, though, was that "my grand schemes for working by day and writing by night all had a fundamental flaw — my lack of qualifications for working by day." As he describes it, "Unless the task was of the simplest and most undemanding, my mind wandered."

Usually it wandered in the direction of a pretty young woman. He "suffered from — or enjoyed, if that is the preferred formula — inordinate susceptibility to female beauty":

"From childhood onwards I had seen beauty in women as a revelation of universal truth, and now, in what should have been adulthood, I still did, which meant that adulthood felt like childhood, with childish behavior as an inevitable consequence." Perhaps so, but most of the women in question seem rather to have enjoyed James's attentions, and his success with them was, even by his own reckoning, not inconsiderable.

His success in a number of endeavors, in fact, is more impressive than James would have us believe. He was accepted at Pembroke College, Cambridge, to which he departs at the end of this volume with the prospect of finding "a sure footing." He describes in great detail his boozing, but offhandedly acknowledges that he subsequently went off the sauce with no difficulty or regret. He also managed to break his cigarette habit, which he describes in terms all too painfully familiar to those acquainted with tobacco:

"The steady kippering of my insides had so far led to only intermittent convulsions — the average coughing fit was easily quelled by squeezing my head between my knees — but my wind already showed signs of impairment. If I ran a hundred yards for a stationary bus I couldn't get up the stairs after I had caught it. Like most people who smoked umpteen cigarettes a day, I tasted only the first one. The succeeding umpteen minus one were a compulsive ritual which had no greater savor than the fumes of burning money. To have experienced the full thrill, one would have had to have been one's own girl-friend, for whom mouth-to-mouth contact clearly had the same effect as sucking the exhaust pipe of a diesel truck."

Amusing as all this is, it disguises the truth that the reader must wrest from "Falling Towards England" by inference: that Clive James was an ambitious, determined young man who, as his subsequent performance thoroughly demonstrates, seized the opportunities he found in England and made a rewarding career out of them. If he chooses to write a third memoir, perhaps he will describe his intellectual coming of age at Cambridge and his emergence as a writer of many and varied gifts. More likely, though, he will choose to put the clown shoes back on for another comic routine; the act, as both memoirs amply attest, is too good to be put in mothballs.

Jonathan Yardley is on the staff of The Washington Post.

Solution to Friday's Puzzle

V	A	L	E		C	H	A	S	E	R		H	A	M
O	D	E	A		H	A	M	I	T	E		A	N	O
W	I	N	G		I	R	E	N	E	S		B	O	W
S	T	O	L		D	E	R	N		A	B	I	D	E
			E	L	E	M	I		F	L	U	T	E	D
C	H	A	F	E	S		C	H	I	E	F			
H	E	L	E	N		G	A	O	L		F	E	L	T
E	R	M	A		C	A	N	O	E		A	M	O	R
W	E	S	T		A	L	I	T		A	L	I	V	E
			H	A	M	A	N		E	C	O	L	E	S
A	T	H	E	N	A		D	E	A	T	H			
C	H	A	R	T		F	I	S	T		I	B	I	S
R	E	V		R	E	L	A	T	E		D	U	S	K
I	R	E		I	R	O	N	E	R		E	S	T	E
D	E	N		M	E	E	S	E	S		S	H	O	W

9/27/86

BRIDGE

By Alan Truscott

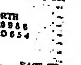
IN an American tournament the results of the first session of a pair championship are generally available within an hour of the completion of play, whether scored manually or by computer. But at the recent world mixed-pairs championship in Miami, won by Jon and Pamela Wittes of Los Alamitos, California, a new French computer program was introduced, requiring the players to complete a complex form that was then to be scanned by a card-reader for the computer.

Many players were unequal to this task, and the scoring of many deals was therefore delayed. As a result the first-session results were not available when the second session was completed.

The obvious spade opening lead was disastrous for many West players on the diagramed deal. Five diamonds was a popular opening bid for South, and it was often doubled. The spade lead permitted South to discard one club, surrender a club and ruff a club in the dummy to make his game.

An inspired trump lead would have been effective, stopping the club ruff, and the defense had a chance if West led the heart ace. If he then shifted to a trump, East had to be careful not to waste his diamond jack: that card was needed to prevent the eight being an entry to dummy after hearts were established.

At a few tables, South opened three no-trump, an extreme use of the gambling version of that bid showing a solid minor suit. If that bid ended the auction, the opening spade lead was again a disaster for East-West.



NORTH
♠ A 10 9 8 6
♥ K 10 6 5 4
♦ 8 2
♣ 7

WEST
♠ K Q J 7 2
♥ A Q 7
♦ 5
♣ K J 8 2

EAST (D)
♠ 5 4 3
♥ J 9 2
♦ J 7
♣ A Q 6 5 4

SOUTH
♠ —
♥ 8 3
♦ A K Q 10 9 6 4 3
♣ 10 9 3

Neither side was vulnerable. The bidding:

East	South	West	North
Pass	5 ♦	Dbl.	Pass
Pass	Pass		

West led the spade king.

SPORTS

Jaworski, Defense Help Lowly Eagles Defeat Rams, 34-20

The Associated Press

PHILADELPHIA — Quarterback Ron Jaworski's three touchdown passes and a defense that stopped National Football League rushing leader Eric Dickerson carried the Philadelphia Eagles to a 34-20 upset Sunday of the previously unbeaten Los Angeles Rams for embattled Buddy Ryan's first head coaching victory.

Jaworski, who left the game with 8:34 left in the third quarter with a slight concussion, completed 17 of 27 passes for 213 yards as the Eagles silenced the Veterans Stadium spectators who were booing and, after three losses, were shouting for Ryan's firing.

The ferocity of the Eagles' offense was only slightly more surprising than the collapse of the Rams' defense, third in the league before the game. Los Angeles had won its first three.

The Eagles, last in rushing defense, stonewalled Dickerson in the first half, allowing him just 19 yards on eight carries. He wound up with 58 yards on 17 rushes.

The Eagles soared to a 27-0 halftime lead, turning an intercepted pass, a fumble recovery and a trick play into 17 of those points.

Vikings 42, Packers 7: In Minneapolis, Tommy Kramer threw six touchdown passes for Minnesota and surpassed the 20,000-yard career passing mark.

Kramer, who was replaced early in the second half after his sixth touchdown, threw two scoring passes each to Steve Jordan and Hassan Jones and one each to Darrin Nelson and Mike Mularkey.

Redskins 19, Seahawks 14: In Washington, George Rogers rushed for 115 yards and two touchdowns as the undefeated Redskins triumphed over previously unbeaten Seattle.

Rogers' second score, from seven yards, gave his team a 16-7 lead late in the third quarter. The run capped a 74-yard drive and gave the Redskins some breathing room after they had used a team-record 57-yard field goal by Steve Cox to take a 9-7 halftime lead.

The Seahawks closed to 19-14 when David Krieg hit Steve Largent on an 11-yard touchdown pass with 1:50 left, but Seattle could not get past the Washington 49-yard line after getting the ball back with 44 seconds remaining.

Largent caught three passes to tie Harold Carmichael's NFL record of having caught a pass in 127 consecutive games.

Browns 24, Lions 21: In Cleveland, Gerald McNeil, at 143 pounds (64.7 kilograms) the lightest player in the NFL, returned a punt 84 yards for a touchdown and started the tie-breaking drive with a 36-yard kickoff return against Detroit.

McNeil's third-quarter punt return was the longest in the Browns' history. His fourth-quarter kick return started a 10-play, 58-yard drive that ended in Matt Bahr's 24-yard field goal with 11 minutes to play.

NFL ROUNDUP

49ers 31, Dolphins 16: In Miami, Jeff Kemp passed to Jerry Rice for two touchdowns and the San Francisco defense frustrated Dan Marino with a career-high four interceptions.

The Dolphins are off to their worst start in 17 years. It was their third loss in four games; Miami hasn't started so badly since beginning 0-3-1 in 1969, the year before Don Shula took over as coach.

While Marino completed 27 of 46 for 301 yards, he was constantly hurried and never got his rythym. His frustration was most evident on the 49ers' final touchdown, an interception by Ronnie Lott, who lateralled to Tom Holmoe, who ran 66 yards for a touchdown. Marino was the last man between Holmoe and the goal line but ran right by rather than tackle him.

He was lifted after that for Don Strock.

Giants 20, Saints 17: In East Rutherford, New Jersy, Phil Simms threw a four-yard touchdown pass to tight end Zeke Mowatt with 8:03 to play as the Giants rallied from a 17-point first-half deficit and downed New Orleans.

The touchdown pass was the second of the day for Simms and capped a seven-play, 72-yard drive that the Giants' quarterback started with an 18-yard scramble. It also was the first regular-season touchdown in more than a year for Mowatt, who missed all of last season with a knee injury.

The winning drive was set up when Leonard Marshall recovered Rueben Mayes's fumble at the Giants' 28.

Bears 44, Bengals 7: In Cincinnati, sore-shouldered quarterback Jim McMahon threw three touchdown passes to inspire a sluggish Chicago offense to its most productive performance of the season.

The Bears routed the Bengals in style reminiscent of their 1985 Super Bowl season, using McMahon's leadership to cash in on five interceptions by their hard-hitting linebackers and defensive secondary. Chicago built a 21-0 lead in the first quarter and was never in jeopardy.

McMahon, making his first start since separating his shoulder three weeks ago, dove one yard for the Bears' first score, threw a two-yard scoring pass to running back Walter Payton, then launched a perfect 53-yard scoring pass to wide receiver Willie Gault to complete the biggest first-quarter scoring blitz against Cincinnati in five years.

Kansas City 20, Buffalo 17: In Orchard Park, New York, Nick Lowery kicked a 46-yard field goal with 1:07 to play to give Kansas City its victory.

The Chiefs scored twice in the game's final five minutes and were helped when Buffalo quarterback Jim Kelly threw an interception to Deron Cherry late in the fourth quarter after the Chiefs had scored the tying touchdown.

Reuters-UPI

Cornelius Boza-Edwards slipped under one punch thrown by Hector Camacho but could not duck enough to defeat the World Boxing Council light-heavyweight champion.

Rosario Strips Bramble of WBA Title; Honeyghan Wins Welterweight Crown

New York Times Service

MIAMI BEACH, Florida — Edwin Rosario, considered an over-the-hill fighter only a few months ago, won the World Boxing Association lightweight title in a shocking upset by knocking out the champion, Livingstone Bramble, 2:28 seconds into the second round.

The upset Friday night is likely to scramble the lightweight scene, in which a "dream match" had been expected with Bramble against Hector Camacho, the World Boxing Council lightweight champion. Camacho retained his title in a second fight here Friday, with a unanimous 12-round decision over Cornelius Boza-Edwards.

Rosario, after a cautious first round, cut loose in the second. He nailed Bramble with a left hook and a right that drove the champion against the ropes.

Rosario landed punch after punch, largely without response. As he pounded away on Bramble, a 4-1 favorite in the scheduled 15-rounder, blood streamed from a cut above Bramble's eye.

Rosario dropped the champion to his knees with a right. Bramble remained there as the referee, Ernesto Magana, counted him out.

Rosario raised his record to 24-2 with 20 knockouts. Bramble is 24-2-1.

Bramble said he was going to the hospital for medical attention, adding that he thought he had been thumbed in the eye during the second round.

Rosario had won the WBC lightweight title in May 1983 from Jose Luis Ramirez. But he looked unimpressive in taking a decision from Howard Davis in June 1984. In his next title defense, against Ramirez in November 1984, Rosario was knocked out in four rounds.

But when he met Camacho this past June, Rosario staggered Camacho twice during the 12-round bout and nearly won it. When Camacho was awarded a split decision, he was booed by the crowd.

■ Honeyghan Stops Curry

Lloyd Honeyghan outpunched Donald Curry, opening a severe cut over his left eye and stopping him in the sixth round Saturday night to win the undisputed welterweight championship in another upset, The Associated Press reported from Atlantic City, New Jersey.

Curry, the unbeaten champion, never had control of the scheduled 12-round bout.

He was cut over the left eye early in the sixth round. Honeyghan shook the defending champ with four head punches with 15 seconds left in the round. At round's end, Curry's handlers examined the cut and advised referee Octavio Meyran to stop the bout.

The 26-year-old Honeyghan, who was born in Jamaica and lives in London, becomes one of boxing's two undisputed champs. The other is middleweight Marvin Hagler. Honeyghan now has a 28-0 record with 18 knockouts. Curry, 25, from Fort Worth, Texas, lost for the first time after 25 victories, including 20 by knockouts.

■ Boxer Held in Killing

Reggie Gross, whose heavyweight career was set back in June when he was knocked out by Mike Tyson, has been arrested on suspicion of murder, United Press International reported the police as saying Friday in Baltimore.

Gross, 25, was arrested outside the gym where he trains. The police said the 6-foot-2 (1.89-meter) fighter was suspected of shooting a 32-year-old man to death Sept. 12 on a Baltimore street.

Lloyd Honeyghan, left, of London took the welterweight title from heavily favored Donald Curry in the sixth round.

Miami Defeats Oklahoma By 28-16 as Testaverde Passes for 4 Touchdowns

Compiled by Our Staff From Dispatches

MIAMI — Vinny Testaverde, the once-forgotten quarterback who considered leaving the University of Miami in search of a chance to play, on Saturday turned an angry meeting of the two top-ranked teams in college football into his stage.

Testaverde threw four touchdown passes in No. 2 Miami's surprisingly complete 28-16 victory over No. 1 Oklahoma before a crowd of 71,451 in the Orange Bowl. He completed 21 of 28 passes — including 14 in a row — for 261 yards as the offensive line of the Hurricanes (4-0) consistently provided its quarterback with more than enough time.

U.S. COLLEGE FOOTBALL

"Testaverde is the best quarterback we've ever played against," said Barry Switzer, Oklahoma's coach for 14 years.

Asked if he'd like a rematch with Miami, in the New Year's Day Orange Bowl game, Switzer replied, "I wouldn't want to play them again."

Testaverde was not intercepted by a Sooner secondary that was far more mature and cohesive than the unit that he exploited in the 27-14 victory last season at Norman, Oklahoma.

That was Oklahoma's only loss in what became a championship season and the Sooners, led by Brian Bosworth, the all-America linebacker, had claimed, loudly and often, that they would reassert themselves.

But with the Oklahoma wishbone offense forced into trying to come from behind, Saturday's game became most one-sided. The Sooners (2-1) endured their worst loss in five years and had to hear the Miami student section sing, "Bye-Bye, Bosworth, we hate to see you go."

Testaverde, who was a backup to Jim Kelly and Bernie Kosar, both now in the pro ranks, did not play three seasons ago, when the Hurricanes shocked Nebraska in the Orange Bowl to win the top spot in the final news agency polls. And he was not a starter until last year. This time he beat the Sooners with his strength and scrambling ability, as well as with his arm.

Twice, against the defensive unit billed as the most formidable in the nation, Testaverde turned what seemed to be certain losses into gains. On a first down from the Miami 48, he avoided the rush and looped a pass to fullback Alonzo Highsmith for a 13-yard gain.

Two plays later, from the Sooner 34, Testaverde scrambled near the right sideline, avoided four tacklers, and ran across the field to go out of bounds on the left, having covered about 70 yards for a 10-yard gain.

"I turned around and thought, 'What's going on, here?' " flanker Mike Irvin said. "This guy cuts right, then he cuts left. I got tired and stopped running. I said, 'Vinny, go down.' "

As Testaverde knelt on the grass to catch his breath, the Oklahoma coaches called time so the defenders could catch theirs.

Four plays later, a six-yard pass to reserve tight end Alfredo Roberts gave the Hurricanes a second-quarter lead they never lost.

In the third quarter, Testaverde's eight-yard pass to Charles Henry regained a sense of control. A five-yard pass to Irvin presented Oklahoma's wishbone with a nearly hopeless 18-point deficit.

And, after Sooner tight end Keith Jackson took a pass from Jamelle Holieway for a 54-yard score, Testaverde's 30-yard pass on a line to Irvin put the game out of reach, began a celebration and established the quarterback as a leading contender for the Heisman Trophy.

The Oklahoma wishbone, which had averaged 460 yards rushing in its first two games this season, picked up only 186 in 48 attempts.

Nebraska 48, Oregon 14: In Lincoln, Nebraska, defensive end Broderick Thomas recovered three fumbles in the first half, one for a touchdown and another to set up a score for the No. 4 Cornhuskers.

Michigan 20, Florida St. 18: In Ann Arbor, Michigan, strong safety Ivan Hicks intercepted two second-half passes, the second leading to a seven-yard touchdown, as the No. 5 Wolverines edged the No. 20 Seminoles.

Southern California 20, Washington 10: In Los Angeles, split end Ken Henry caught two touchdown passes. One, a 13-yarder from quarterback Rodney Peete in the fourth quarter, put the No. 12 Trojans ahead to stay against the No. 6 Huskies.

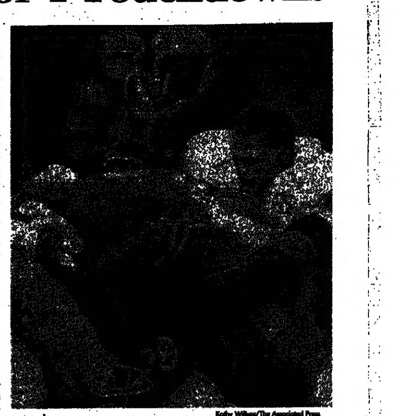
Penn State 42, East Carolina 17: In University Park, Penn State quarterback John Shaffer threw two touchdown passes as the No. 7 Nittany Lions ran up a 35-0 halftime lead.

Auburn 34, Tennessee 8: In Auburn, Alabama, Brent Fullwood ran for 207 yards, scoring on a 19-yard run and setting up another touchdown with an 85-yarder for the No. 8 Tigers.

Arkansas 42, New Mexico St. 11: In Little Rock, Arkansas, quarterback Greg Thomas engineered three touchdown drives in the No. 9 Razorbacks' first four possessions.

Holy Cross 41, Harvard 0: Sophomore quarterback Jeff Wiley engineered four touchdowns in a 6½-minute span while the Crimson committed 11 turnovers in the game and tied an NCAA Division I-AA record by throwing nine interceptions.

Notre Dame 41, Purdue 9: In South Bend, Indiana, a potent offense led by freshman tailback Anthony Johnson's two touchdowns gave Lou Holtz his first victory as Irish coach. *(NYT, WP, AP, UPI)*



Kathy Willens/The Associated Press

Oklahoma's all-America linebacker, Brian Bosworth, had his helmet knocked off while trying to stop Melvin Bratton.

SCOREBOARD

Baseball

Friday's and Saturday's Major League Line Scores

[illegible]

Major League Standings

[illegible]

Transitions

[illegible]

Football

Selected U.S. College Scores

[illegible]

CFL Standings

[illegible]

European Soccer

[illegible]

Tennis

[illegible]

Norman Passes $1 Million in Earnings As Australia Wins Team Tournament

R. Lafay/Reuters

A wind-blown Greg Norman paid close attention to Tommy Nakajima's putt on the second green at St. Andrew's.

The Associated Press

ST. ANDREW'S, Scotland — Greg Norman became the first man to win $1 million in a single golf season Sunday when he led Australia to victory in the final of the Dunhill Cup team tournament.

The Australians retained their trophy with a 3-0 blanking of Japan and shared the top prize of $300,000, boosting Norman's personal earnings for 1986 to $1,008,000. He said he will play in seven more tournaments.

In three appearances in Britain alone, the long-hitting Australian, winner of the British and European opens, has earned $337,500. He has completed his American PGA Tour with $653,296, just ahead of Bob Tway, who has $638,516 and five tournaments to go.

The final of the $1-million Dunhill Cup was hampered by a savage wind that sent scores soaring on the Old Course at St. Andrew's.

But Rodger Davis gave Australia a winning start with a 76-81 triumph over Jet Ozaki. David Graham then got the crucial point when Ozaki's brother, Joe, failed to escape from the bunker at the tough "road hole," the 17th, and lost the match by one shot, 81-82.

Norman came in with 73 to beat rival captain Tommy Nakajima by three strokes.

"It's a great feeling to have seven figures behind my name but I suspect the tax man is equally as happy," Norman said.

In Saturday's semifinals, the U.S. team had lost, 2-1, to the Japanese, while Australia beat Scotland, 2-1.

■ Calcavecchia Leads

Mark Calcavecchia shot 6-under-par 66 and took a five-shot lead Saturday at 204 after three rounds of the Southwest Classic, The Associated Press reported from Abilene, Texas. Tom Byrum held second at 209 after a 67.

■ Women's Circuit for Asia

A women's golf circuit is to begin in Asia next year, the sponsors announced Sunday in Tokyo, Agence France-Presse reported. It will begin with a tournament in Thailand on Feb. 12, and move on to Malaysia, Singapore and Indonesia.

SPORTS BRIEFS

Now Nystrom Is Out for Sweden

STOCKHOLM (UPI) — Defending champion Sweden, which has already lost Mats Wilander to a sabbatical for its Davis Cup semifinal next weekend against Czechoslovakia, now has lost Joakim Nystrom to an injured knee, the Swedish coach Hans Olsson said.

Nystrom said from Barcelona that if he would be "only maybe 75 percent fit, and that is not enough for Davis Cup competition."

Scots Beat Japanese in Rugby, 33-18

EDINBURGH (AFP) — Japan lost an international rugby match to Scotland on Saturday, 33-18, as left wing Iwan Tukalo scored four of Scotland's six tries.

Japan had three tries, all after the Scots built a 33-6 lead.

For the Record

Renaldo Nehemiah, the Olympic 110-meter hurdles champion, will be allowed to compete in next year's world track championships in Rome because he has retired from pro football, the president of the International Amateur Athletic Federation, Primo Nebiolo, said Friday. *(AP)*

هكذا من الأصل

Paul Newman: Eyes and the 'Color of Money'

By Maureen Dowd
New York Times Service

IF you are meeting Paul Newman for the first time, he will have on his sunglasses. As he gets to know you, he will peek over the rims occasionally. As he gets to trust you, he will let the sunglasses hang from his left ear. The next time you meet, he will take them off.

To the public, the actor's cerulean eyes have become a symbol of his stardom. To Newman, they have become a symbol of his long struggle to be thought of as a craftsman. "To work as hard as I've worked to accomplish anything and then have some yo-yo come up and say, 'Take off those dark glasses and let's have a look at those blue eyes' is really discouraging.

"It's as though someone said, 'Open your mouth and let me see your gums,' or 'Open your blouse and let me see your chest.' The thing I've never figured out is, how do you present eyes? Do you present them coyly? Do you present them boldly? Usually, I just say, 'I would take off my sunglasses, madam, but my pants would fall down.'"

He is one of the last great movie stars, a legend built up by the old Hollywood studio system at Warner Brothers and Metro-Goldwyn-Mayer and sustained by his magnetism and talent.

His public biography is familiar. Paul Leonard Newman was born 61 years ago in Cleveland, the son of a Jewish sporting-goods store owner, and was raised in the affluent suburb of Shaker Heights. He has appeared in 47 films and directed five. He has been nominated for an Oscar six times, and last year was awarded an honorary one recognizing his career and "his personal integrity and dedication to his craft." He lives with Joanne Woodward, his wife of 28 years, in a 200-year-old carriage house in Westport, Connecticut. He is a champion race-car driver, the founder of a successful food business, a political activist and a philanthropist.

And yet he remains curiously elusive. He exists in the public mind as bits and pieces of his characters — Butch Cassidy's charm, Ben Quick's machismo, Cool Hand Luke's defiance, Harper's irony, Hud's disdain.

Newman is an intensely private, even shy, man who does not like to talk about himself. Partly, this is because he hates answering the same questions over and over. (No, he did not start racing cars as a way of reclaiming his lost youth and no, he and Robert Redford are not best friends, and yes, he is still crazy about his wife.) And partly, it is his way of holding the movie-star legend at bay.

On rare occasions, however, when he is in a movie that he likes or when there is a cause that he believes in, Newman allows a glimpse inside his life. Now he is in a movie he likes very much indeed. In "The Color of Money," a Disney Touchstone picture that opens next month, Newman picks up the trail of Fast Eddie Felson, the cocky pool shark he created in the 1961 classic "The Hustler."

"The delight of a character like Eddie is that he's had an additional 25 years of hustling," Newman said, a low thrill in his voice. "He's so slick. He's pulling so many things. There are scenes in this movie an actor would kill for."

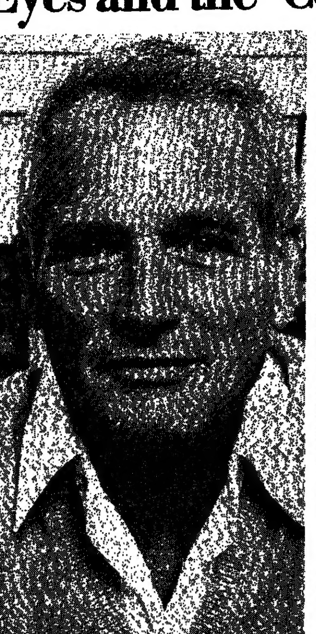
This time around, Tom Cruise is Vince Lauria, the young pool player who wants to be the best there is, and Newman is the Machiavellian manager who wants a piece of the action.

The new movie offers a vivid reminder that Newman, who created some of the screen's most memorable young men on the make, is now creating some of the screen's most memorable older characters. It is impossible, when Cruise calls Newman "Gramps" and Newman tells him to change his diapers, not to feel a small jolt at the passage of time as marked by the evolution of Newman's career. The film makes mocking note of that.

"C'mon, Fast Eddie," Vince says as the two shoot pool. "Let's see some heavy legend action here."

Not only is this "legend" aging gracefully; he is embracing this new phase of his career with adolescent abandon. "I was always a character actor," he said. "I just looked like Little Red Riding Hood."

After several years when he felt bored with acting and thought about "chucking it all and becoming a gentleman dairy farmer," he has come alive again with such challenging roles as Michael Gallagher, the victim of the press who turned the tables in "Absence of Malice"; Frank Galvin, the alcoholic, down-and-out lawyer in "The Verdict," and now an older, faster Eddie Felson.



Blue-eyes Newman: "Scenes an actor would kill for."

Because of his happy-go-lucky nature and good looks, the actor always seemed the sort for whom things would come easily. But the key to Newman is that nothing has come easily. He often describes himself as "a terrier."

"I always wanted to be an athlete, a football player or a baseball player," he said. "I tried skiing for 10 years. The only thing I ever felt graceful at was racing a car, and that took me 10 years to learn."

During the 1970s he concentrated more on racing than acting, and even thought about quitting acting. But, somewhere along the line, his passion for racing revived his passion for acting.

Newman has dramatized this in "The Color of Money." Fast Eddie sees Vince's pure love of pool, and after years of thinking of the game as merely a hustle, the older man suddenly falls back in love with the game himself. "I'm hungry again," he tells Vince, "and you bled that back into me."

For Newman, it all goes back to his image of himself as a terrier, keeping at it and at it until he wins. "I'm just now beginning to learn a little something about acting," he said. "I don't say that as a joke and I don't say it because I'm being modest. I don't think I ever had an immediate spontaneous gift to do anything right."

Newman did not look at "The Hustler" before he began the sequel. "When I look at my old movies, I get gloomy because I can see myself consciously working to create the character. In the scene in 'Hud' when I was talking to my nephew and I said, 'My Mamma loved me but she died,' I was working too hard to find the emotions. I compare that to the summation scene at the end of 'The Verdict.' The emotions were there, but you couldn't see the machinery."

He said he now has a more sophisticated understanding of "how the strings are synchronized. There are certain characteristics you carry with you. If I am being oily in a part, that is going to come across completely differently than Warren Beatty or Jack Nicholson being oily. If you get an actor who's angry at life, his machinery for manipulation will be entirely different than mine."

Just as Newman has streamlined his acting, he has streamlined his preparation. "My imagination appears to be more fertile," he said. "I don't really have to get down on my hands and knees and look under the rocks."

Now he can create a character, he said, "by finding his nerves." In the scene in "The Verdict" in which Frank Galvin follows a doctor down the street, desperate to get him to testify for his foundering case, Newman played it "the way a dog follows somebody that had a bone in his hand — sideways."

Over the years he found that the lines began to blur between his roles and his own personality. He would wake up with hangovers from Hud or Fast Eddie. "You get to the point where it's much easier to play a role that has been examined and accepted on the screen than it is to play yourself.

"You have such an investment in the roles you play. You have to step back sometimes and figure out whether you're doing you or somebody else." In the middle of a conversation about acting, Newman interrupted with the tale of an unusual encounter. He seemed, suddenly, to want to cut through the scrim of illusion and reality and explain the real Paul Newman.

He was strolling down Fifth Avenue in Manhattan one recent day when he saw a woman in a white dress who was causing something of a commotion. "A real stunner," he recalled. "Man, drivers were jumping the curb to get a better look." Their eyes met in a flicker of mutual appreciation, and Newman walked on to Lexington Avenue, stopping to look in the window of an antique shop. He felt a tap on his shoulder. The woman in white explained that she was a call girl but, for him, she would dispense with her usual fee. She waited for an answer. And waited some more.

The actor known for his cool was blushing. "You think about how you would play a moment like that," he said. "You want to send her off with something classy and stylish, the way Cary Grant would, or Clint Eastwood. You think, how would Hombre handle this?

"All I could manage was this massive foot shuffling and dancing around, like a worm on the end of a hook."

He jumped up to illustrate, doing a little rain dance of embarrassment. "I was still shuffling," he said, grinning, "eight blocks later."

This article was excerpted from an article in The New York Times Magazine.

LANGUAGE

CEOs: Who's in Charge?

By William Safire

WASHINGTON — The most painful ad of the year appeared in business pages recently, headed "One Clarification of Motorola's Management Succession Announcement."

The copy explained that the company had just put out a six-page "progressive plan for top management succession." The casual reader would take that to mean that somebody new would soon be in charge. But in a curiously constructed sentence, seeming to suggest that the original announcement had been in a foreign language that had some sort of computerized interpretation program, the company said: "Unfortunately, one part of this announcement has not translated clearly."

It seems that some reporters took the succession announcement to mean that Robert W. Galvin, chairman and chief executive officer, was "stepping down."

"This is incorrect," said Motorola. "Mr. Galvin will continue to work and *lead* [italics not mine] the company just as before. . . . He relinquished one of his titles, Chief Executive Officer, so that other eminently deserving long service associates can carry this richly deserved recognition."

In at least one company, then, *chief executive officer* appears to mean "second in command (eminently deserving of richly deserved recognition)."

A call to Galvin's office elicits this quotation from him, passed on here without translation: "The senior officership of this company, as designated by the board, is the chairman of the board, *not* the chief executive officer."

Look, when you're the boss, you can call the guy down the hall anything you like, even "boss," if it pleases you, until you fire him in richly deserved recognition of his getting uppity. But somehow this watering-down of the CEO title strikes me as too much too soon; a title should have a certain period up at the top.

Fred Mish, editorial director of Merriam-Webster, instead of naming his office boy chief lexicographic officer, looked it up himself. The 1950 Current Biography included these historic lines: "B. Earl Puckett was in February 1950 elected board *chairman* (the *chief executive officer*) of the Allied Stores Corporation, one of the largest department store chains in the United States. . . . The bylaws of Allied were changed on February 14, 1950, to provide for the Chairman of the Board to become the *chief executive officer*, who shall, under the control of the Board of Directors, have the general management of its affairs." This is now known to linguists as the St. Valentine's Day Massacre of the Title of President; three years later, Time magazine was writing: ". . . but as chief executive officer, iron-fisted [Eddie] Rickenbacker is still the real boss."

Executive is rooted in the Latin *ex-*, "out of," and *sequi*, "to follow," and at one time meant "that which executes a sentence of death"; we have since differentiated between executives and executioners. *Chief Magistrate* was the coinage of Alexander Hamilton in 1788, describing the president of the United States, and *Chief Executive* was first used by John Tyler, who succeeded to the presidency when William Henry Harrison died in 1841: "I have been clothed with the high powers which they have seen fit to confide to their Chief Executive."

Although *exec*, for executive officer, has a naval meaning of second in command, CEO was doing pretty well until Galvin, who is not stepping down and you'd better believe it, gave the short-lived title the torpedo. CEO, according to the Acronyms, Initialisms & Abbreviations Dictionary, also means command entertainments officer in the British military, customs enforcement officer in the U. S. Treasury, communications-electronics officer in the U. S. Air Force and casualty evacuation officer (no source for this is given). CEO is an initialism, not an acronym, because the letters are individually pronounced and not made into a word.

The CEO era gave rise to the CFO (not certified flying object, as you might imagine, but chief financial officer) and, most recently, the CIO, chief investment officer, a nice boost for the bookkeeper you can't afford to give a raise, unless he is a member of the Congress of Industrial Organizations, in which case you can stick your title in your ear.

New York Times Service

Imprimé par Offprint, 73 rue de l'Evangile, 75018 Paris.